Docket:	:	A.06-01-005
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Christine Walwyn
DRA Project Mgr.	:	Yoke Chan

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

Test Year 2007

Application 06-01-005

For authority to increase water rates located in its Los Angeles District serving Baldwin Hills, Windsor Hills, View Park, Ladera Heights and vicinity, Duarte, Bradbury, portions of Irwindale, Monrovia and vicinity, San Marino, Rosemead, portions of San Gabriel, Temple City and vicinity, Los Angeles County.

San Francisco, California
May 5, 2006

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MEMORANDUM

This report was prepared by the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) in the California American Water Company (Cal Am) A.06-01-005 rate case proceeding. In this docket, the applicant requests an order for authorization to increase rates charged for water service by $2,020,446 or 10.88% in fiscal year 2007; by $634,659 or 3.08% in fiscal year 2008; and by $666,422 or 3.14% in fiscal year 2009 in its Los Angeles District service area. In this report DRA presents its analysis and recommendations associated with the applicant's request.

Yoke Chan served as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. DRA's witnesses' prepared qualifications and testimony are contained in Appendix A of this report.

DRA's legal counsel for this case is Natalie Wales.

DRA's recommendation on Cost of Capital is discussed under separate cover.

EXECUTIVE SUMMARY

Cal Am requested an increase of 10.88% in test year 2007 and 3.08% in escalation year 2008, whereas DRA recommends a decrease of 1.8% in test year 2007 and a decrease of 10.3% in 2008.

Key Recommendations

DRA's recommendations are based on lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), lower Rate Base (Chapter 9), a lower Return on Equity of 9.69% and lower Rate of Return on Rate Base of 7.76% for 2007.

In additions, DRA recommends the following:

(a) Special Request #1

Cal Am requests implementation of an Infrastructure System Replacement Surcharge (ISRS) to recover additional fixed costs associated with capital expenditure investments for replacement or rehabilitation of certain facilities. DRA recommends that the special request for ISRS be denied as explained further in chapter 12.

(b) Special Request #2

Cal Am requests implementation of a rate design that will reduce the current monthly service charge and shift more of the recovery of fixed costs to the volumetric charge. This special request should be considered in conjunction with Cal Am's proposal for a new rate design. DRA will provide its recommendation in reply testimony that will address Call Am's new proposal.

(c) Special Request #3

Cal Am requests implementation of consistent rates across the Los Angeles District and Cal Am has committed to withdrawing this special request.

(d) Special Request #4

Cal Am requests implementation of a low income program that would provide a fixed charge surcredit equal to approximately 15% of the average residential bill. DRA recommends this special request be approved as explained further in chapter 12.

(e) Special Request #5

Cal Am requests implementation of full cost balancing accounts for purchased water and purchased power. This special request should be considered in conjunction with Cal Am's proposal for a new rate design. DRA will provide its recommendation in reply testimony that will address Call Am's new proposal.

(f) Special Request #6

Cal Am requests establishment of a conservation memorandum account for tracking and recovery of costs related to improvement of current conservation efforts. This special request should be considered in conjunction with Cal Am's proposal for a new rate design. DRA will provide its recommendation in reply testimony that will address Cal Am's new proposal.

(g) Special Request #7

Cal Am requests establishment of memorandum account to track the actual tax effects of the American Jobs Creation Act. DRA recommends this special request be approved as explained further in chapter 12.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Yoke Chan
3	Operation and Maintenance Expenses	Vibert Greene
4	Admin. and General Exp. Rent & Regulatory Exp Allocated GO Expenses	Vibert Green Yoke Chan Toni Canova
5	Taxes Other Than Income	Vibert Greene Joyce Steingass
6	Income Taxes	Toni Canova
7	Plant in Service	Joyce Steingass
8	Depreciation Expenses and Reserve	Joyce Steingass
9	Rate Base, Net to Gross Multiplier	Joyce Steingass
10	Customer Service	Toni Canova
11	Rate Design	Joyce Steingass
12	Special Requests	Joyce Steingass Toni Canova
13	Escalation Year Increases	Yoke Chan

CHAPTER 1: OVERVIEW AND SUMMARY OF EARNINGS

A. INTRODUCTION

This report sets forth the analysis and recommendations of DRA pertaining to A. 06-01-005, Cal Am's general rate increase request for Test Year 2007 and Escalation Years 2008 and 2009.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 on the Summary of Earnings compare the results of operations for the Test Year 2007 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

The total revenues requested by Cal Am are as follows:

Year	Amount of Increase	Percent
2007	$2,020,466	10.88%
2008	$634,659	3.08%
2009	$666,422	3.14%

Cal Am estimates that its proposed rates in the application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2007	8.83%	11.60%
2008	8.86%	11.60%
2009	8.93%	11.60%

D. CONCLUSION

DRA recommends revenue decrease for the test year as follows (Escalation Years 2008 and 2009 are covered in Chapter 13):

Year	Amount of Decrease	Percent
2007	$329,600	1.8%

The last general rate increase for Cal Am was authorized by D. 04-09-041 in Application A. 03-07-036, resulting in a rate of return on rate base of 8.36% in 2005. Present Rates used by both Cal Am and DRA in this report are based on Advice Letter 614, which implemented a step rate increase authorized for 2004 in D. 04-09-041, but delay until 2005 according to the settlement adopted in D.02-12-068. These rates have been increased since January 1, 2006 per Advice Letter 639-A.

A comparison of DRA's and Cal Am's estimates for rate of return on rate base for the Test Year 2007 and Escalation Year at the utility's present and the proposed rates is shown below:

RATE OF RETURN

	DRA		Cal Am		Diff	
	2007	2008	2007	2008	2007	2008
Present Rates	8.30 %	11.80%	5.96%	8.02%	2.34%	3.16%
Proposed Rates	11.58%	12.34%	8.83%	8.86%	2.75%	3.48%

TABLE 1-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007

(AT PRESENT RATES)

Item	DRA Estimate	CalAm Estimate	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	18,563.8	18,563.8	0.0	0.0%
Operating expenses:				
Operation & Maintenance	6,402.3	6,408.4	6.1	0.1%
Administrative & General	1,833.7	2,583.6	749.9	40.9%
Payroll	1,383.2	1,655.9	272.7	19.7%
Acquisition Premium & RWE	499.5	499.5	0.0	0.0%
G. O. Prorated Exp.	1,886.7	1,886.7	0.0	0.0%
Dep'n & Amortization	2,046.9	2,051.5	4.6	0.2%
Taxes other than income	553.5	637.4	83.9	15.2%
State Corp. Franchise Tax	196.8	88.6	(108.3)	-55.0%
Federal Income Tax	849.1	347.9	(501.2)	-59.0%
Total operating exp.	15,651.7	16,159.5	507.8	3.2%
Net operating revenue	2,912.1	2,404.3	(507.8)	-17.4%
Rate base	35,094.6	40,335.0	5,240.4	14.9%
Return on rate base	8.30%	5.96%	-2.34%	-28.2%

TABLE 1-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CalAm Estimate	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	20,576.6	20,584.3	7.7	0.0%
Operating expenses:				
Operation & Maintenance	6,408.4	6,414.5	6.1	0.1%
Administrative & General	1,833.7	2,583.6	749.9	40.9%
Payroll	1,383.2	1,655.9	272.7	19.7%
Acquisition Premium & RWE	499.5	499.5	0.0	0.0%
G. O. Prorated Exp.	1,886.7	1,886.7	0.0	0.0%
Dep'n & Amortization	2,046.9	2,051.5	4.6	0.2%
Taxes other than income	553.5	637.4	83.9	15.2%
State Corp. Franchise Tax	348.5	240.9	(107.7)	-30.9%
Federal Income Tax	1,551.4	1,052.9	(498.5)	-32.1%
Total operating exp.	16,511.9	17,022.7	510.8	3.1%
Net operating revenue	4,064.7	3,561.6	(503.1)	-12.4%
Rate base	35,094.6	40,335.0	5,240.4	14.9%
Return on rate base	11.58%	8.83%	-2.75%	-23.8%

TABLE 1-3

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	18,563.8	18,234.2	(329.6)	-1.8%
Operating expenses:				
Operation & Maintenance	6,402.3	6,401.3	(1.0)	0.0%
Administrative & General	1,833.7	1,833.7	0.0	0.0%
Payroll	1,383.2	1,383.2	0.0	0.0%
Acquisition Premium & RWE	499.5	499.5	0.0	0.0%
G. O. Prorated Exp.	1,886.7	1,886.7	0.0	0.0%
Dep'n & Amortization	2,046.9	2,046.9	0.0	0.0%
Taxes other than income	553.5	553.5	0.0	0.0%
State Corp. Franchise Tax	196.8	172.0	(24.8)	-12.6%
Federal Income Tax	849.1	734.1	(115.0)	-13.5%
Total operating exp.	15,651.7	15,510.9	(140.9)	-0.9%
Net operating revenue	2,912.1	2,723.3	(188.7)	-6.5%
Rate base	35,094.6	35,094.6	0.0	0.0%
Return on rate base	8.30%	7.76%	-0.54%	-6.5%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on water consumption and operating revenues of Cal Am's Los Angeles District. Due to DRA's lack of resources, DRA was regrettably not able to perform its own analysis. DRA performed a limited review of Cal Am's report, supporting workpapers, methods of estimating water consumption and operating revenue. Based on DRA's limited review, we agree with Cal Am's estimates. The Los Angeles District consists of three sub-districts, Baldwin Hills, Duarte and San Marino areas. The total consumption of the Los Angeles District represents the consumption of the three sub-districts.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with Cal Am's projections in the following areas: (1) of sales per customer as shown in Table 2-1, (2) average number of customer as shown in Tables 2-2 and 2-3, (3) total sales and supply in Tables 2-4 and 2-5 (4) unaccounted for water of 6.06%, and (5) revenue at present rates used by Cal Am in its application.

C. DISCUSSION

1) Total Water Consumption and Supply

Total consumption of water is the sum of metered sales and unaccounted for water. The total sales and supply are shown in Tables 2-4 and 2-5 and the small difference is due to rounding. Supply is divided between company wells and purchased water for Baldwin Hills and San Marino. Duarte uses mostly well water and replenished water.

2) Operating Revenues

The present revenues are calculated based on the rates effective January 1, 2005. The proposed rates are those shown in Cal Am's application. Revenues requested by Cal Am and recommended by DRA based on the present rates and Cal Am's proposed rates are shown in Tables 2-6 and 2-7.

3) Unaccounted For Water

Cal Am's estimate of Unaccounted For Water of 6.06% was based on using 5 year average and DRA does not oppose to it.

TABLE 2-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	272.0	272.0	0.0	0.0%
Commercial	872.8	872.8	0.0	0.0%
Public Authority	1,619.4	1,619.4	0.0	0.0%
Industrial	3,042.8	3,042.8	0.0	0.0%
Irrigation	3,035.0	3,035.0	0.0	0.0%
Other	322.4	322.4	0.0	0.0%
Private Fire Serivce	0.0	0.0	0.0	0.0%
Private Fire Hydrants	5,564.2	5,564.2	0.0	0.0%

1

TABLE 2-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
Metered Connections				
Residential	24,197	24,197	0.0	0.0%
Commercial	2,619	2,619	0.0	0.0%
Public Authority	290	290	0.0	0.0%
Industrial	70	70	0.0	0.0%
Irrigation	66	66	0.0	0.0%
Other	16	16	0.0	0.0%
Total metered connections	27,258	27,258	0.0	0.0%
Fire Protection Connections				
Private Fire Hydrants	36	36	0.0	0.0%
Private Fire Service	296	296	0.0	0.0%
Total	332	332	0.0	0.0%
Total Active Connections				
Include Fire Protection	27,590	27,590	0.0	0.0%
Exclude Fire Protection	27,258	27,258	0.0	0.0%

TABLE 2-3

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
Metered Connections				
Residential	24,215	24,215	0.0	0.0%
Commercial	2,617	2,617	0.0	0.0%
Public Authority	290	290	0.0	0.0%
Industrial	70	70	0.0	0.0%
Irrigation	66	66	0.0	0.0%
Other	16	16	0.0	0.0%
Total metered connections	27,274	27,274	0.0	0.0%
Fire Protection Connections				
Private Fire Hydrants	36	36	0.0	0.0%
Private Fire Service	296	296	0.0	0.0%
Total	332	332	0.0	0.0%
Total Active Connections				
Include Fire Protection	27,606	27,606	0.0	0.0%
Exclude Fire Protection	27,274	27,274	0.0	0.0%

TABLE 2-4

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
Metered Sales CCF				
Residential*	6,581.6	6,582.3	0.7	0.0%
Commercial	2,285.9	2,285.9	0.0	0.0%
Public Authority	469.6	469.6	0.0	0.0%
Industrial	213.0	213.0	0.0	0.0%
Irrigation	200.3	200.3	0.0	0.0%
Other	5.2	5.2	0.0	0.0%
Total metered sales	9,755.5	9,756.2	0.7	0.0%
Private Fire Service	0.0	0.0	0.0	0.0%
Unaccounted For Water (6.06%)	629.3	629.4	0.0	0.0%
Total delivered - CCF	10,384.9	10,385.5	0.6	0.0%
Total delivered - AF	23,840.4	23,841.9	1.6	0.0%
Production (AF)				
Purchased Water - West Basin	1,767.0	1,767.0	0.0	0.0%
Well Prod. - Replenishment District	2,067.0	2,067.0	0.0	0.0%
Replenished Water	2,318.0	2,318.0	0.0	0.0%
Well Prod. - Main San Gabriel Basin	4,811.0	4,811.0	0.0	0.0%
Total Main San Gabriel Basin	7,961.0	7,961.0	0.0	0.0%
Total Raymond Basin	2,299.0	2,299.0	0.0	0.0%
MWD Via City of San Marino	1,875.0	1,875.0	0.0	0.0%
City of Pasadena - West	720.0	720.0	0.0	0.0%
City of South Pasadena	28.0	28.0	0.0	0.0%
Total production	23,846.0	23,841.9	(4.1)	0.0%

TABLE 2-5

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2008

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
Metered Sales				
Residential*	6,586.5	6,586.7	0.2	0.0%
Commercial*	2,285.7	2,285.8	0.1	0.0%
Public Authority	469.6	469.6	0.0	0.0%
Industrial	213.0	213.0	0.0	0.0%
Irrigation	200.3	200.3	0.0	0.0%
Other	5.2	5.2	0.0	0.0%
Total metered sales	9,760.3	9,760.6	0.3	0.0%
Private Fire Service	0.0	0.0	0.0	0.0%
Unaccounted For Water (6.06%)	629.6	629.6	0.0	0.0%
Total delivered CCF	10,389.9	10,390.3	0.4	0.0%
Total Delivered AF	23,851.9	23,852.8		
Production (AF)				
Purchased Water - West Basin	1,764.0	1,764.0	0.0	0.0%
Well Prod. - Replenishment District	2,067.0	2,067.0	0.0	0.0%
Replenished Water	2,331.0	2,331.0	0.0	0.0%
Well Prod. - Main San Gabriel Basin	4,811.0	4,811.0	0.0	0.0%
Total Main San Gabriel Basin	7,961.0	7,961.0	0.0	0.0%
Total Raymond Basin	2,299.0	2,299.0	0.0	0.0%
MWD Via City of San Marino	1,875.0	1,875.0	0.0	0.0%
City of Pasadena - West	720.0	720.0	0.0	0.0%
City of South Pasadena	28.0	28.0	0.0	0.0%
Total production	23,856.0	23,852.8	(3.2)	0.0%

TABLE 2-6

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

OPERATING REVENUES

TEST YEAR 2007

(AT PRESENT RATES)

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	13,007.6	13,007.6	0.0	0.0%
Commercial	3,943.0	3,943.0	0.0	0.0%
Public Authority	826.6	826.6	0.0	0.0%
Industrial	372.9	372.9	0.0	0.0%
Irrigation	179.0	179.0	0.0	0.0%
Total General Metered	18,329.1	18,329.1	0.0	0.0%
Other Revenues				
Private Fire Hydrants	20.3	20.3	0.0	0.0%
Private Fire Service	170.2	170.2	0.0	0.0%
Misc Service	6.7	6.7	0.0	0.0%
Other	37.5	37.5	0.0	0.0%
Total Other	234.7	234.7	0.0	0.0%
Total revenues	18,563.8	18,563.8	0.0	0.0%

TABLE 2-7

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

OPERATING REVENUES

TEST YEAR 2007

(AT PROPOSED RATES)

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	14,364.2	14,364.2	0.0	0.0%
Commercial	4,399.1	4,399.1	0.0	0.0%
Public Authority	921.6	921.6	0.0	0.0%
Industrial	436.8	436.8	0.0	0.0%
Irrigation	198.5	198.5	0.0	0.0%
Total General Metered	20,320.2	20,320.2	0.0	0.0%
Other Revenues				
Private Fire Hydrants	22.5	22.5	0.0	0.0%
Private Fire Service	188.7	188.7	0.0	0.0%
Misc Service	6.7	6.7	0.0	0.0%
Other	38.5	38.5	0.0	0.0%
Total Other	256.4	256.4	0.0	0.0%
Total revenues	20,576.6	20,576.6	0.0	0.0%

CHAPTER 3: OPERATIONS & MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Operation and Maintenance (O & M) expenses in the **Los Angeles District(s)** of California American Water Company. **Table 3-1** compares DRA's and Cal Am's O&M estimates for the Test Year 2007. Comparison of total expense estimates at present rates for these years are shown in **Table 3-A:**

Table 3-A : Comparison of Total Expense Estimates

Items	**Test Year 2007 DRA:**	**Test Year 2007 Cal Am:**	**Test Year 2007 Cal Am Exceeds DRA**
O&M Exp. ($000)	**$12,741.3**	**$13,033.9**	**$292.6 or 2.3%**

B. SUMMARY OF RECOMMENDATIONS

DRA recommends an estimated total for O & M expenses of $12,741,300 for Test Year 2007. Cal Am's is requesting a total of $13,033,900, which exceeds DRA's estimate by $292,600 or 2.3%.

C. DISCUSSION

DRA conducted independent analyses of Cal Am work papers and methods of estimating the Operating and Maintenance expenses for the Test Year 2007.

Cal Am used a 5-year average of historical expenses adjusted for inflation for projecting the Test Year 2007 expenses of: Payroll, Chemicals, Uncollectibles, Outside Services, Other Administrative and General Expenses and Rents. The Rationale for the 5-year average of each of the identified expense items above will be discussed in the sections pertaining to those items.

Other Cal Am expenses that were not based on five-year inflation-adjusted historical average costs include: Purchased Water, Purchased Power, Insurance, Pensions and Benefits, Regulatory Commission Expenses, Miscellaneous General Expenses, Allocated General Office Expenses, Acquisition Premium and RWE Expense Savings**.** Rationale for methodologies used other than a 5-year average of each of the identified expense items will be discussed in the sections pertaining to those items.

DRA's analyses of Cal Am estimates for the Test Year 2007 included: Regression analyses of Cal Am recorded historical expense trends and Cal Am estimates for the Test Year 2007 plus use of Cal Am's and DRA's Composite Inflation Rates as shown in **Table 3 - B**.

Table 3 – B: COMPOSITE INFLATION RATES

Cal Am	**2006**	**2007**	**2008**
Inflation Rates	2.04%	1.64%	1.72%
DRA	**2006**	**2007**	**2008**
Inflation Rates	3.60%	2.20%	2.00%

Table 3-C : Escalation Factors								
	Compensation per hour Non-farm rate		**Inflation Rates (%)**				**Composite Rates % 60/40 Split**	
Year	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non-Labor	Labor	Non-Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.3	5.5	2.7	4.6	3.1	5.3	4.5
2006	3.5	3.7	3.6	3.4	2.4	3.0	3.6	2.9
2007	3.8	3.9	1.1	2.5	0.9	2.2	2.2	2.1
2008	4.0	4.1	0.7	1.8	0.6	1.9	2.0	2.0
2009	4.1	4.2	0.5	2.0	0.4	2.0	1.9	1.9
2010	4.2	--	0.3	1.9	--	--	1.9	--

The inflation factors used by DRA are recommended by the Commission's Office of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which provides the inflation factors for rate cases before the Commission. These factors were provided in a Memorandum from ECOS dated Feb. 28, 2006. The Labor escalation factors are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price Indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index; derive from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from the monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices

and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018.

1) Purchased Water

DRA did not challenge Cal Am's Purchased Water estimates for the Test Year 2007 and the Escalation Year 2008. Purchased water costs are based on normalized consumption and production estimates computed at the most current commodity rate and assessment rates from Metropolitan Water District (MWD), Main San Gabriel Basin, San Gabriel Basin Water Quality Authority and the Raymond Basin. Cal Am forecasted its purchased water costs by assuming it would first use all of its pumping rights from each basin; and then use water purchased from MWD agencies to meet the balance of its water requirements.

DRA **accept** Cal Am estimates of $3,616,100 for Test Year 2007.

2) Produced Water: Ground Water Extraction Charges

Cal Am's replenishment assessment and groundwater extraction charges are discussed under Purchased Water Calculation in the expenses work papers. These are set charges.

3) Purchased Power

Cal Am's estimates of purchase power costs per production unit were based on usage patterns for the 12 month period (07/2004-06/2005) and the historical kilowatt per production unit for the Los Angeles district at current base year 2006 rates in effect from Southern California Edison, and the Los Angeles Department of Water and Power. Purchased power is the cost of electricity needed to operate a district, including the power used in pumping and delivering water. The estimate of purchased power varies with the quality of water delivered. This calculation also takes into account the historical ratio of electricity used to the

amount of water pumped. Cal Am estimated $1,866,900 for Purchased Power in Test Year 2007.

DRA **accept** Cal Am's historically based calculation of system efficiency (the number of kilowatt-hours needed to pump KCcf—Hundred Thousand Cubic Feet—of water.) And Cal Am's estimated $1,866,900 for Purchased Power in Test Year 2007.

4) Purchased Chemical

Cal Am's recorded expense trend for purchased chemical show a downward trend. Chemical costs for 2006 and 2007 were based on a five year, inflation adjusted historical average. The cost is further adjusted to consider price level changes in the National Chemical Purchasing Program of Cal Am. Cal Am is requesting a total of $23,300 for Test Year 2007.

DRA challenged Cal Am's estimates for the Test Year 2007. DRA based its estimates on a trend analysis using the least-squared method and the most recent data from 2006 and the historical recorded data from 2001 to 2005.

DRA recommends an estimate of $17,190 in Test Year 2007 be adopted.

5) Uncollectibles

Cal Am estimated $56,630 for Customer Accounts- Uncollectibles in Test Year 2007.

DRA **accepts** Cal Am's estimates of $56,630 for Customer Accounts-Uncollectibles in Test Year 2007.

6) Source of Supply

(a) Operation Expenses- Source of Supply-Misc.

Cal Am estimated $47,427 for Source of Supply-Misc. in Test Year 2007. DRA found Cal Am's estimates of $47,427 for Source of Supply-Misc. in

Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $47,427 in Test Year 2007.

(b) Maintenance Expenses- Source of Supply-Collection

Cal Am estimated $12,700 for Source of Supply-Collection in Test Year 2007. DRA found Cal Am's estimate of $12,700 for Source of Supply-Collection in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $12,700 for Source of Supply-Collection in Test Year 2007.

(c) Maintenance Expenses- Source of Supply-Other

Cal Am estimated $16,700 for Source of Supply-Other in Test Year 2007. DRA found Cal Am's estimate of $16,700 for Source of Supply-Other in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $16,700 for Source of Supply-Other in Test Year 2007.

7) Pumping Expenses

(a) Operation Expenses- Misc. Pumping Expense

Cal Am estimated $16,600 for Misc. Pumping Expense in Test Year 2007. DRA found Cal Am's estimates of $16,600 for Misc. Pumping Expense in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $16,600 for Misc. Pumping Expense.

(b) Maintenance Expenses-Pumping-Other Pumping Plant

Cal Am estimated $116,100 for Pumping-Other Pumping Plant in Test Year 2007. DRA found Cal Am's estimates of $116,100 for Pumping-Other Pumping Plant in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimate of $116,100 for Pumping-Other Pumping Plant in Test Year 2007.

8) Water Treatment.

(a) Operation Expenses-Water Treatment Misc.

Cal Am estimated $81,400 for Water Treatment Misc. in Test Year 2007. DRA found Cal Am's estimates of $81,400 for Water Treatment Misc. in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $81,400 for Water Treatment Misc. in Test Year 2007.

(b) Maintenance Expenses-Water Treatment-Equipment

Cal Am estimated $41,400 for Water Treatment-Equipment in Test Year 2007. DRA found Cal Am's estimates of $41,400 for Water Treatment-Equipment in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimate of $41,400 for Water Treatment-Equipment in Test Year 2007.

9) Transmission and Distribution

(a) Operation Expenses-T & D-Misc.

Cal Am estimated $166,600 for T & D Misc. in Test Year 2007.

DRA found Cal Am's estimates of $166,600 for T & D Misc. in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimates of $166,600 for T & D Misc. in Test Year 2007.

(b) Maintenance Expenses-T & D-Maintenance of Misc. Plant

Cal Am estimated $324,300 for T & D Maintenance of Misc. Plant in Test Year 2007. DRA found Cal Am's estimates of $324,300 for T & D Maintenance of Misc. Plant in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimate of $324,300 for T & D Maintenance of Misc. Plant in Test Year 2007.

10) Customer Accounting

(a) Operation Expenses-Cust Accts-Records & Collect. & Misc.

Cal Am estimated $23,100 for Customer Accts. Records & Collect. & Misc. for Test Year 2007. DRA found Cal Am's estimate of $23,100 for Customer Accts. Records & Collect. & Misc. for Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimate of $23,100 for Customer Accts. Records & Collect. & Misc. in Test Year 2007.

(b) Operation Expenses-Customer Accts-Uncollectibles

Cal Am estimated $56,600 for Customer Accts-Uncollectible in Test Year 2007. DRA found Cal Am's estimate of $56,600 for Customer Accts-Uncollectible in Test Year 2007 to be reasonable. Cal Am's 2007 estimates were adjusted for inflation.

DRA **accept** Cal Am's estimate of $56,600 for Customer Accts-Uncollectible in Test Year 2007.

TABLE 3-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	CalAm exceeds DRA %
	(Thousands of $)			
At present rates				
Operating Revenues	18,563.8	18,563.8		
Uncollectible rate	0.3051%	0.3051%		
Uncollectibles	56.6	56.6	0.0	0.0%
Operation Expenses				
Source of Supply- Misc	47.4	47.4	0.0	0.0%
Purchased Water - Baldwin Hills	1,230.2	1,230.2	0.0	0.0%
Purchased Water - Duarte	654.9	654.9	0.0	0.0%
Purchased Water - San Marino	1,731.0	1,731.0	0.0	0.0%
Misc Pumping Expense	16.6	16.6	0.0	0.0%
Purchased Power - Baldwin Hills	303.1	303.1	0.0	0.0%
Purchased Power - Duarte	448.1	448.1	0.0	0.0%
Purchased Power - San Marino	1,038.8	1,038.8	0.0	0.0%
Purchased Power - Non-production	76.9	76.9	0.0	0.0%
Water Treatment - Misc	81.4	81.4	0.0	0.0%
Chemicals	17.2	23.3	6.1	35.5%
T & D - Misc.	166.6	166.6	0.0	0.0%
Merchandising & Jobbing	(0.8)	(0.8)	0.0	0.0%
Cust Accts - Records & Collect. & Misc.	23.1	23.1	0.0	0.0%
Customer Accts - Uncollectibles	56.6	56.6	0.0	0.0%
Total Operation Expenses	5,891.1	5,897.2	6.1	0.1%
Maintenance Expenses				
Source of Supply - Collection	12.7	12.7	0.0	0.0%
Source of Supply - Other	16.7	16.7	0.0	0.0%
Pumping - Other Pumping Plant	116.1	116.1	0.0	0.0%
Water Treatment - Equipment	41.4	41.4	0.0	0.0%
T & D - Maintenance of Misc. Plant	324.3	324.3	0.0	0.0%
Total Maintenence Expense	511.2	511.2	0.0	0.0%
Total O & M Expenses (incl uncoll)	6,402.3	6,408.4	6.1	0.1%
At proposed rates				
Operating Revenues	20,576.6	20,576.6		
Uncollectible rate	0.3051%	0.3051%		
Uncollectibles	62.8	62.8		
Total O & M Expenses (incl uncoll)	6,408.4	6,414.5	6.1	0.1%

CHAPTER 4: ADMINSTRATIVE AND GENERAL EXPENSES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Administrative and General (A&G) expenses in the Los Angeles District(s) of California American Water Company. Table 4 -1 compares DRA's and Cal Am's A&G estimates for the Test Year 2007. A comparison of total A&G expense estimates at present rates for these years are shown in Table 4-A.

Table 4-A: Comparison of Total Expense Estimates

Items	**Test Year 2007 DRA:**	**Test Year 2007 Cal Am:**	**Test Year 2007 Cal Am Exceeds DRA**
A&G Exp. ($)	**$5,603,100**	**$6,625,700**	**$1,022,600 or 18.3 %**

B. SUMMARY OF RECOMMENDATIONS

DRA recommends an estimated total for A & G expenses of $5,603,100 in Test Year 2007. Cal Am is requesting $6,625,700 which exceeds DRA's estimate by $1,022,600 or 18.3%

C. DISCUSSION

DRA conducted independent analyses of Cal Am work papers and methods of estimating its Administrative and General Expenses for the Test Year 2007. In most cases, Cal Am used a 5-year average of historical expenses adjusted for inflation as the basis for projecting the Test Year 2007 expenses. The 5-year inflation adjusted averages include expense items such as: Injuries and Damages, Outside Services and Office Supplies and Other Expenses. Miscellaneous General Expenses were based on 3-year inflation adjusted averages using 2001, 2003 and 2005.

DRA's analyses of Cal Am's estimates for the Test Year 2007 included regression analyses of the recorded historical Years with Test Year 2007; Cal Am's supporting work papers and current US economic conditions.

Inflation Factor

The inflation factors used by DRA are recommended by the Commission's Department of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. These factors were provided in a Memorandum from ECOS dated Oct. 31, 2004. The Labor escalation factors are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price Indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factors is a composite index, derive from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from the monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate base plan adopted in D.04-06-018.

1) A&G Labor

Labor costs included Union and Non-Union Employees payroll expenses and overtime. However, labor costs do not include benefits. Benefits costs are included in the General Office. Cal Am capitalizes a portion of its labor expenses in each of its districts. An historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of 8.15%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the test year 2007.

For Union Employees, Cal Am's position is that the current union contract is subject to renegotiation at this time. DRA accepts Cal Am's projected increases

for 2006 and 2007 estimated at 3.0% annually. For Non-Union Employees, Cal Am's position is that to be competitive with area wages, Non-Union Employees will receive 4.0% on April 1, 2006 for both the base year 2006 and the Test Year 2007 as projected pay increase in its business plan.

The number of overtime hours projected for 2006 and 2007 were based on 2005 historic levels—Union Employees will be covered by Union Contract while Non-Union Employees who qualify for overtime will be compensated at wage rates in accordance with Cal Am's historical practice and corporate policy. DRA used Cal Am's inflation numbers for the Non-Union Employees. Cal Am did not ask for additional staff for its Los Angeles district; in Test Year 2007.

DRA **accepts** Cal Am's Overtime structure as reasonable **but challenges** Cal Am's Payroll estimates for 2007. DRA based its estimates on a trend analysis that use Cal Am's historical data from 2001 to 2005. DRA note a downward trend from 2001 to 2004, with a sharp rise in 2005 of 17.56%.

Payroll

Cal Am estimated $1,655,900 for Test Year 2007 and DRA estimated $1,383,240 for Test Year 2007.

DRA recommends its Payroll estimate of $1,383,240 for Test Year 2007 be adopted.

2) Miscellaneous General Expenses

The Misc. General Expense category is PUC Account 799 for 2006 and 2007. Cal Am's estimates were based on a 3-year, inflation-adjusted historical average (2001, 2003 & 2005). Contract Services, Charitable Contributions and Company Dues/Membership fees were excluded from the forecast. Current vehicle leases were accounted for including, fuel costs based on a 5-month historical average from April 2005 to August 2005.

DRA believes Cal Am's methodology to be reasonable and **accept** Cal Am's estimates of $392,900 in Test Year 2007.

3) Rents

Cal Am estimates $197,500 for the Test Year 2007. The rents are for (1) seven leases including the San Marino office and (2) real properties for source of supply. DRA recommends $100,700 be adopted in Test Year 2007.

During DRA's field investigation on March 22-23, DRA observed that the office spaces in the San Marino office are underutilized. Cal Am indicated that some of its staffs from San Marino office have moved to the Rosemead field office. In the Master Data Responses, CalAm listed four management and two non management employees located at the office and the lease will expire in August 2007. DRA believes that al though the lease will not expire until August 2007, the San Marino office was not fully utilized at this time and ratepayers should not be paying for unused office spaces and therefore, recommends only 25% of the rent ($10,030) proposed by Cal Am be adopted. For all seven leases, CalAm escalated its projected 2006 estimate by 3.5% whereas DRA uses DRA's composite escalation factors of 3.6% in 2006 and 2.2% in 2007.

For rents associated with source of supply real properties, both Cal Am and DRA use the composite escalation factors.

4) Employees Pensions & Benefits

Cal Am estimates Employees Pension & Benefits for Test Year 2007 at $1,027,700. DRA challenged Cal Am's Employees Pension & Benefits estimates for the Test Year. DRA based its estimates on a regression analysis using Cal Am's historical data from 2001 to 2005. R-square value = 0.7909. DRA estimated $848,000 in Test Year 2007.

DRA recommend its estimates of $848,000 in Test Year 2007 be adopted.

5) Maintenance of General Plant

Cal Am's estimated $352,600 for General Plant in Test Year 2007. It should be noted that Cal Am's estimates were $0.0 for 2001 and 2002 respectively; in 2003 it was $2,600, in 2004 it was $500 and in 2005 it was $900. For 2006 the increase is estimated at $318,300—a 35,366.67% increase. In 2007 Cal Am estimated $352,600.

DRA challenged Cal Am's General Plant Maintenance estimates for the Test Year 2007. DRA based its estimates on a trend analysis using Cal Am's historical data from 2001 to 2005.

DRA recommend its estimate of $1,720 in Test Year 2007 be adopted.

6) Property Insurance

DRA found Cal Am's Property Insurance estimate of $137,400 for the Test Year 2007 to be reasonable. DRA used a regression analysis for its estimate. DRA found Cal Am's estimate for 2007 as compared to DRA's estimate for that year-- to be relatively close, with an. R-squared value = 0.7109.

DRA **accept** Cal Am's Property Insurance estimate of $137,400 for the Test Year 2007.

7) Regulatory Commission Expenses

For the regulatory Commission expenses, Cal Am estimated $615,660 for the GRC or $203,100 per year. DRA recommends $241,800 or $80,600 per year be adopted.

Cal Am workpapers showed recorded $6,605 in 2001, $7,721 in 2002, $7,489 in 2003, $1,391 in 2004 and $173,049 in 2005. Cal Am's request of $615,660 is approximately 170% more than $228,300 the authorized amount in its 2003 GRC (A. 03-07-036).

On page 8 of Ms. Sherrene Chew's direct testimony, it shows the rate case expenses requested in its Los Angeles district (A. 03-07-036), Sacramento /Larkfield district (A. 04-04-040/041) and Monterey/Felton (A. 05-02-012/013)

However, it should be noted that the following rate case expenses were adopted in Los Angeles and Sacramento/Larkfield and settled in Monterey/Felton districts.

District	Requested	Adopted	Settled
Los Angeles (A.03-07-036)	$346,098	$228,300	
Sacramento/Larkfield (A.04-04-040/041)	$503,719	$382,000	
Monterey/Felton (A. 05-02-012/013)	$1,278,190		$395,100

DRA believes Cal Am's Los Angeles rate case is less complex compared to its most recent Monterey/Felton cases (which have issues such as the San Clement Dam project, Desalination project, and the participation of several interveners etc.). Cal Am's proposed Los Angeles rate case expense would be about $22 per customer or two times more than $10 per customer which was settled in its Monterey/Felton GRCs. DRA escalates the last adopted expense and recommends $241,800 or $80,600 per year be adopted.

8) Worker's Comp. Injuries & Damages

Cal Am's Worker's Compensation and Damages including General Liability Insurance estimates were based on a five year, inflation adjusted historical average. Cal Am's estimate for 2007 Test Year was $246,100.
DRA believe Cal Am's methodology to be reasonable and **accept** Cal Am's estimate of $246,100 in Test Year 2007.

9) Outside Service Employed

Cal Am's Outside Services included Accounting—Operation A&G, Legal--Operation A&G, Temporary Employees-- Operation A&G and Other-- Operation

A&G. Cal Am's Outside Services estimates were based on a five year, inflation adjusted historical average. Cal Am's estimate for 2007 Test Year was $26,261. DRA believe Cal Am's methodology to be reasonable and **accept** Cal Am's estimate of $26,261 for Test Year 2007.

10) Allocated General Office Expenses

Cal Am and DRA filed a joint Settlement Agreement on October 19, 2005 for Cal Am's Monterey and Felton Districts (A.05-02-012 and A.05-02-013) GRC proceeding. As part of that settlement agreement the two parties agreed on the GO cost allocations. These GO cost allocations were then used to project the GO costs in this district's GRC expense estimates. Though the final decision is not yet issued for that case both Cal Am and DRA use the settled amounts and escalated to 2007. For Test Year 2007 the amount is $2,386,200 and escalated to $2,415,700 for 2008. The 2007 estimate of $2,386,200 is comprised of three costs component; GO allocated expenses of $1,886,700, RWE savings of ($175,500), and an Acquisition Premium recovery amount of $675,000. If the decision for Cal Am's Monterey and Felton districts adopts different general office expenses, DRA recommends the adopted allocated general office expenses be used in this proceeding.

RWE, the parent company of American Water Works Service Company (American Water), of which Cal Am is a subsidiary, has announced the decision to return American Water to its status as a publicly-traded company. RWE intends to divest American Water either through an initial public offering (IPO) or by selling to a group of financial investors. At this time American Water has not submitted an application to do either. Therefore, it is not known what impact this divestiture would have on Cal Am or on its customers.

TABLE 4-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	CalAm exceeds DRA %
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	18,507.2	18,507.2		
Loc. Franch Rate	0.00%	0.00%		
Franchise tax	0.0	0.0	0.0	0.0%
Property Insurance	137.4	137.4	0.0	0.0%
Worker's Comp, Injuries & Damages	246.1	246.1	0.0	0.0%
Employees Pensions & Benefits	848.0	1,027.7	179.7	21.2%
Regulatory Expenses	80.6	203.1	122.5	152.0%
Outside Services	26.3	26.3	0.0	0.0%
Miscellaneous General Expense	392.9	392.9	0.0	0.0%
Telephone	0.0	0.0	0.0	0.0%
Maintenance of General Plant	1.7	352.6	350.9	20641.2%
Rents	100.7	197.5	96.8	96.1%
Total A & G Expenses	1,833.7	2,583.6	749.9	40.9%
(incl. local Fran.)	1,833.7	2,583.6	749.9	40.9%
Payroll	1,383.2	1,655.9	272.7	19.7%
Allocated GO Expenses				
G.O. Allocation	1,886.7	1,886.7	0.0	0.0%
Acquisition Premium	675.0	675.0	0.0	0.0%
RWE Expense Savings	(175.5)	(175.5)	0.0	0.0%
Sub-Total	2,386.2	2,386.2	0.0	0.0%
Total A&G and Allocated GO exp.	5,603.1	6,625.7	1022.6	18.3%
At proposed rates				
Oper. Rev. less uncoll.	20,513.8	20,513.8		
Franch & B. L. Rate	0.00%	0.00%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	1,833.7	2,583.6	749.9	40.9%
(incl. local Fran.)	1,833.7	2,583.6	749.9	40.9%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of "Taxes Other Than Income" for Cal Am for test year 2007. Taxes Other Than Income include ad valorem tax (property tax) and payroll taxes. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution Act (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

DRA's and Cal Am's estimates of Taxes Other Than Income for the test year 2007 are included in the tables at the end of the chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methodology that Cal Am proposes using to determine the estimated expenses for test year 2007 for ad valorem taxes. Cal Am proposes using an effective tax rate that represents the five-year average tax rate for the most recent tax periods (2001-2005). Additional differences in the taxes or fees are due to differences between DRA and Cal Am estimates of plant additions and payroll expenses.

C. DISCUSSION

1) AD VALOREM TAXES

Cal Am used an effective tax rate of 0.01122 to calculate the ad valorem taxes. This tax rate is the five-year average rate based on years 2001-2005. Generally, DRA uses the most recently recorded actual tax rate to calculate ad valorem tax. If DRA calculated ad valorem tax using the last recorded effective tax rate it would use 0.01086 or 1.086%.[1] This difference in calculations would

[1] Cal Am Workpapers, according to Exhibit A, Chapter 7, Section 1, page 3.

yield a DRA estimate that is $16,980 lower than the Cal Am estimate. DRA requested an explanation for the reason that Cal Am elected to use a five-year average tax rate to calculate ad valorem tax in DRA Data Request DR JWS4-1. Cal Am explained that it was not using the last recorded effective tax rate because the five-year average is a more reasonable approximation. Cal Am response to Data Request DR JSW-4-1 states:

"…There is a strong rationale why the last recorded effective tax rate can't be used to estimate future ad valorem taxes. The method most assessors use to determine ad valorem taxes is based on Proposition 13, which allows for recovery of a 1% tax on the assessed value. In the case of water utility assets, the assessed value is equal to net plant. Ad valorem taxes paid in any calendar year are based on the assessed value from the previous two calendar years, without reference to the change in net plant for the tax year. Consequently, a disconnect arises between the ad valorem taxes paid in any calendar year and the average net plant in the same year." "… But because of the lag in using the assessed values for tax payments – the annual net taxes paid to average net plant varies."

DRA compared the differences in effective tax rates over several periods[2]

	2001	2002	2003	2004	2005
Recorded tax rate	1.1119%	1.14%	1.053%	1.212%	1.086%

and reviewed the Annual Property Tax Bill for Los Angeles County for Fiscal Year July 1, 2004 to June 30, 2005[3]. According to that property tax bill, the rate

[2] Cal Am Application Exhibit A, Chapter 7, Section 1, page 3

[3] Cal Am Workpapers, filename: LA LL PropTax bckup.pdf

based on general tax levy for all agencies and voted indebtedness was 1.113905%. The five-year average effective tax rate that Cal Am proposes using is 1.1122% which is actually less that the property tax rate specified on the Annual Property Tax Bill for Los Angeles County. DRA agrees to accept this methodology as it is not a significant difference.

2) PAYROLL TAXES

Payroll Taxes include the employer's share of tax withholding, Medicare, Federal Insurance Contributions Act (FICA) and Federal and State unemployment taxes FUTA and SUI). DRA take issue with Cal Am's estimated Taxes. DRA's estimates shown in Table 5 – A should be adopted. Differences between DRA and Cal Am are due to different estimates of payroll costs.

California American Water Company
Los Angeles District
2007 General Rate Case

TABLE 5 – A
TEST YEAR 2007 PAYROLL TAXES

Year	**Cal Am: Los Angeles District**	**FICA**	**SUI**	**FUTA**	**Medicare**	**TOTAL**
2007	Tax Amount:	$94,900	$800	$600	$22,200	**$118,500**
Year	**DRA Recommendation**	**FICA**	**SUI**	**FUTA**	**Medicare**	**TOTAL**
2007	Tax Amount:	$85,760	$700	$520	$19,400	**$106,390**

TABLE 5-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	447.1	518.9	71.8	16.1%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (prop rates)	0.0	0.0	0.0	0.0%
Payroll Taxes	106.4	118.5	12.1	11.4%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	553.5	637.4	83.9	15.2%
Taxes other than income (proposed rates)	553.5	637.4	83.9	15.2%
State Tax Depreciation	0.0	0.0	0.0	0.0%
Deferred Taxes	0.0	0.0	0.0	0.0%
State Tax Deduct(pres rates)	0.0	0.0	0.0	0.0%
State Tax Deduct(prop rates)	0.0	0.0	0.0	0.0%
Federal Tax Depreciation	0.0	0.0	0.0	0.0%
State Income Tax	139.2	139.2	0.0	0.0%
Transp. Dep. Adj.	0.0	0.0	0.0	0.0%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
Fed. Tax Deduct.(pres rates)	139.2	139.2	0.0	0.0%
Fed. Tax Deduct.(prop rates)	139.2	139.2	0.0	0.0%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter sets forth DRA's analysis of Income Taxes. Tables 6-1 and 6-2 compare in details of the tax deductions and taxes estimated by DRA and Cal Am for Test Year 2007.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods Cal Am used to calculate Income Tax. DRA's lower O & M expenses, A&G expenses, payroll, and interest calculations have made a difference in the final tax estimates. Cal Am's total estimate for CCFT and FIT combined is $436,500 for 2007 at present rates, whereas DRA's estimate is $1,071,200.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Tax Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into this general rate case in accordance with the requirements of Dec. 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987, and Decision 88-01-061 dated January 28, 1988.

To calculate the interest deduction Cal Am used its rate base and multiplied by the weighted cost of debt. DRA used the same method. DRA followed the policy outlined in D.03-12-040 because working cash is part of the rate base and therefore should be considered when calculating the deduction for interest on debt during the calculation of income taxes.

Decision 89-11-058 issued on November 22, 1989 requires that for ratemaking purposes the prior year's CCFT should be used in the calculation of the test year's FIT. The requirements of that decision have been incorporated in this general rate case by both DRA and Cal Am. The prior year's CCFT was used as a deduction in arriving at the test year's estimated FIT.

TABLE 6-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007

(PRESENT RATES)

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	18,563.8	18,563.8	0.0	0.0%
Deductions:				
O & M expenses	6,402.3	6,408.4	6.1	0.1%
A & G expenses	1,833.7	2,583.6	749.9	40.9%
G. O. Prorated expenses	1,886.7	1,886.7	0.0	0.0%
Payroll	1,383.2	1,655.9	272.7	19.7%
Acquisition Premium	675.0	675.0	0.0	0.0%
RWE Expense Savings	(175.5)	(175.5)	0.0	0.0%
Taxes not on Income	553.5	637.4	83.9	15.2%
Interest	1,326.6	1,641.6	315.1	23.7%
Book Depreciation	2,046.9	2,051.5	4.6	0.2%
Total Deductions	15,932.4	17,364.4	1,432.3	9.0%
Income before taxes	2,631.4	1,199.4	(1,432.1)	-54.4%
Calif. Corp. Franchise Tax				
State Tax Deductions	0.0	0.0	0.0	0.0%
Taxable income for CCFT	2,631.4	1,199.5	(1,432.0)	-54.4%
CCFT Rate	7.56%	7.56%		
CCFT	198.9	90.7	(108.3)	-54.4%
Less Deferred Taxes	2.1	2.1	0.0	0.0%
CCFT	196.8	88.6	(108.3)	-55.0%
Federal Income Tax				
Fed. Tax Deductions	139.2	139.2		
Taxable income for FIT	2,492.2	1,060.3	(1,432.0)	-57.5%
FIT Rate	35.00%	35.00%		
FIT	872.3	371.1	(501.2)	-57.5%
Less Deferred Taxes	23.2	23.2	0.0	0.0%
FIT	849.1	347.9	(501.2)	-59.0%
Total FIT & CCFT	1,071.2	436.5	(634.7)	-59.3%

1

TABLE 6-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007

(PROPOSED RATES)

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	20,576.6	20,584.3	7.7	0.0%
Deductions:				
O & M expenses	6,408.4	6,414.5	6.1	0.1%
A & G expenses	1,833.7	2,583.6	749.9	40.9%
G. O. Prorated expenses	1,886.7	1,886.7	0.0	0.0%
Payroll	1,383.2	1,655.9	272.7	19.7%
Acquisition Premium	675.0	675.0	0.0	0.0%
RWE Expense Savings	(175.5)	(175.5)	0.0	0.0%
Taxes not on Income	553.5	637.4	83.9	15.2%
Interest	1,326.6	1,641.6	315.1	23.7%
Book Depreciatiom	2,046.9	2,051.5	4.6	0.2%
Total Deductions	15,938.5	17,370.5	1,432.3	9.0%
Income before taxes	4,638.1	3,213.8	(1,424.3)	-30.7%
Calif. Corp. Franchise Tax				
State Tax Deductions	0.0	0.0	0.0	0.0%
Taxable income for CCFT	4,638.1	3,213.8	(1,424.3)	-30.7%
CCFT Rate	7.56%	7.56%		
CCFT	350.6	243.0	(107.7)	-30.7%
Less Deferred Taxes	2.1	2.1	0.0	0.0%
CCFT	348.5	240.9	(107.7)	-30.9%
Federal Income Tax				
Fed. Tax Deductions	139.2	139.2		
Taxable income for FIT	4,498.9	3,074.6	(1,424.3)	-31.7%
FIT Rate	35.00%	35.00%		
FIT	1,574.6	1,076.1	(498.5)	-31.7%
Less Deferred Taxes	23.2	23.2	0.0	0.0%
FIT	1,551.4	1,052.9	(498.5)	-32.1%
Total FIT & CCFT	1,899.9	1,293.8	(606.2)	-31.9%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA and Cal Am estimates for Plant in Service for test year 2007 and escalation year 2008 are shown in Tables 7-1 and 7-2 at the end of this chapter. DRA reviewed and analyzed Cal Am testimony, Application A.06-01-005, Cal Am workpapers, comprehensive planning studies, capital investment project workpapers, six-year construction budget, estimating methods, and responses to various DRA data requests. Prior to preparing its report, DRA received an overview of the Los Angeles District, reviewed maps of the service areas and toured a selection of completed and proposed investment project sites in the field.

B. SUMMARY OF RECOMMENDATIONS

DRA's recommended beginning of year (B.O.Y.) plant balance for 2007 is $69.43 million dollars, which differs from Cal Am's estimate by $3.14 million. Cal Am included $2.5 million dollars in the beginning of year 2007 plant balance due to the Patton Well project, which DRA excluded from plant balance because the Patton Well project is being considered under an advice letter. DRA disagrees with recording $328,500 to plant during 2005 for the Installation of 9100 feet of 8-inch main in the Lamanda Park Gradient (Project 05500523) due to lack of documentation submitted with the application, Cal Am provided documentation covering $871,550 of the $1.2 million dollar project. DRA disagrees with recording $97,000 to plant during 2005 and $500,000 during 2006 for the Patton Well and Oak Knoll Circle Treatment project (Project 05500503) because it has not started construction. The 2005-2006 charges to the Patton well project involve some engineering consulting, water analysis, and testing work in advance of construction, which is slated to start during 2007. DRA believes that these preliminary expenditures should be recorded to plant after the project becomes operational.

DRA concurs that Cal Am used a six-year average (2000-2004) method to develop its plant weighting factor of 42.69% and agrees with the method used.

DRA analyzed the proposed plant additions and recommends adjustments as detailed in this chapter. Based on these recommendations, DRA's estimates for total plant capital investment (gross plant additions) are $3.09 million for Test Year 2007 and $3.30 million for Escalation Year 2008 (see Table 7-A). Within Cal Am's six-year capital expenditure plan, the 3-year average recorded expenditures (2003-2005) for recurring and non-recurring capital projects were $3.172 million dollars.[4] DRA's recommended level of capital investment, not including the Patton Well project to be submitted by advice letter, is close to the three-year average recorded expenditures of Cal Am during 2003-2005.

[4] Cal Am Master Data Request II A 1, Recorded vs. Authorized Utility Plant additions for the last two GRCs.

Table 7-A
Cal Am Los Angeles District 2007 GRC
Proposed Additions to Utility Plant by Year
(Gross Plant Additions)

Total Plant Capital Investment	DRA Gross Plant Additions	Cal Am[5] Gross Plant Additions	Difference	% Difference
2007	$ 3.09	$ 3.64	($.55)	-18%
2008	$ 3.30	$ 4.24	($.94)	-28%

C. DISCUSSION

In A.06-01-005, Cal Am forecasted expenditures of $3.638 million for recurring and non-recurring capital investment projects during test year 2007 and $4.236 million for escalation year 2008. In addition to these requests, Cal Am proposes to submit two projects by Advice Letter, representing an additional $2.679 million for plant additions during Test Year 2007 and $1.027 million during Escalation Year 2008. One of the two projects involves a large capital investment related to re-drilling the Patton Well and extending a transmission line connecting to the water supply source at Metropolitan Water District. Cal Am

[5] These Cal Am totals ($3.64 million for 2007 and $4.24 million for 2008) are different from those Cal Am proposed in A.06-01-005. DRA derived them by excluding the two projects that will be handled via Advice Letter. These amounts were $179,000 for the Baldwin Avenue railroad over-crossing during 2007, $2.5 million for the Patton Well during 2007 and $1.027 million for the Patton Well during 2008. See also Cal Am Response to DRA Data Request JWS9-1.

describes this project as essential to establishing a reliable water source for the San Marino District in response to the water contamination issues in the ground water for that service area. DRA concurs that these reasons justify the need for the project.

Within Cal Am's six-year capital expenditure plan, the 3-year average recorded expenditures (2003-2005) for recurring and non-recurring capital projects were $3.172 million dollars.[6]

Table 7-B below documents the specific differences between DRA and Cal Am estimates for plant additions and lists those projects where different estimates have been proposed by DRA.

Many of the capital investment projects proposed relate to fire flow improvement projects in San Marino and Baldwin Hills. DRA noted that there were some of these projects that had not been completed during the years 2000 to 2006, or since the time of the study issued during 1997. In the San Marino service area, Cal Am is up-to-date with completing the required fire flow improvement projects, since these were requested to be completed through an ordinance passed by the City Council. These projects were part of the City Council's expectation in granting a franchise to California American Water for providing service[7]. The remaining two projects in San Marino are scheduled for completion in 2006.

The 1997 Fire Flow Improvement Study specifies the fire flow improvements needed in the Baldwin Hills service area. In summary, these fire flow improvement projects will ensure the minimum required fire flow

[6] Cal Am Master Data Request II A 1, Recorded vs. Authorized Utility Plant additions for the last two GRCs.

[7] Capital Project Summary, Investment Project 05500519, Attachment 2, Ordinance No. O-02-1164, an ordinance of the City of San Marino

requirements established by the Los Angeles County Fire Department, while eliminating undersized diameter mains that were identified in the 1997 Study.

A key reason for the delay in implementing these recommendations appears to be related to changes in priorities. Cal Am indicated that the need to pursue the projects over the 2006-2008 timeframe will allow them to coordinate with projects that are targeting low pressure problems identified in a prior CPUC proceeding. The fire flow improvement projects have been targeted to occur in conjunction with these recently completed (or on-going) low pressure improvement projects and will help reduce construction costs and/or reduce impact to area residents during construction.

Table 7-B

Cal Am Los Angeles District 2006 GRC
Differences between DRA and Cal Am Estimated Plant Additions
2007 – 2008

Project No. and Description	Service Area	DRA Estimate	Cal Am Estimate
05500151 Small Main Replacement Program	All	$72,650	$149,000
05500152 Pump Equipment Improvements	All	$138,600	$155,000
05500506 Baldwin Hills Fire Flow Improvement Program	Baldwin Hills	$688,490	$839,000
05500511 1600 Feet of 8-inch Main in Circle Drive	San Marino	$243,950	$292,000
05500513 Installation of Main in Garth Reservoir Zone	Baldwin Hills	$596,070	$763,000
05500514 Installation of Main in Danford Reservoir Gradient	San Marino	$993,100 (defer start by one year)	$1.220 Million
05500516 Installation of Main in Shenandoah from 55th to Bedford	Baldwin Hills	$297,850	$360,000
05500519 Main in Lamanda Park Reservoir Gradient	San Marino	$390,150	$431,000
05500521 Installation of Main in Lemon Reservoir Gradient	Duarte	$501,580	$604,000
05500503 Patton Well & Oak Knoll Circle Treatment Project	San Marino	$4.124 million (Advice Letter)	$3.527 million (and $597,000 recorded prior to 2007)
05500522 Install 850 feet of 16-inch main to reinforce Baldwin Avenue Railroad Crossing	San Marino	$160,000 (Advice Letter)	$179,000

(a) Recurring Projects --Project Codes 05500080 through 05500097 –

DRA concurs with the Cal Am estimate of $1.31 million for recurring projects. These projects address ongoing critical operational needs such as new business extensions, replacement of services, hydrants, meters, and short segments of main; tools, process plant additions and replacements, tools and equipment. The five-year average level of expenditures for recurring projects during 2000-2004 was $1.37 million. Cal Am's proposed estimate for 2007 is comparable to this five-year average. The Cal Am estimate for 2008 includes an additional $150,000 to hire engineering consultant services to perform Comprehensive Planning Studies (CPS) for each service area. DRA concurs with allocating $150,000 to update the CPS and hydraulic models because they were last updated during 2000.

2) Ongoing Projects

This category includes expenditures for construction projects completed during 2005. With the exception of one project, DRA concurs with the expenditures for the year 2005 in this category. DRA recommends reducing by $328,450 Project 05500523, "Install Main in Lamanda Park Elevated Gradient". The project replaces existing 4-inch main with 8-inch main for fire flow improvement. It was estimated by Cal Am at $1.2 million, but DRA recommends authorizing $871,550 because Cal Am provided invoices substantiating only $871,550 of the expenditures.

3) Carryover Projects

(a) 05500524 Pump at Lamanda Park Booster

(b) 05509853 Pump to Waste Projects

DRA concurs with the Cal Am estimates for the two projects included in this category. They were approved by the Commission during the 2003 GRC settlement agreement. The cost estimates reflect the same costs as had been approved in that prior agreement. They were approved for: a) completion during 2006 or; b) they agreed to delay installation until after the last test year in the 2003 GRC, respectively.[8]

4) Proposed New Projects for 2006, 2007 and 2008

Many of the proposed projects involve installation of 8-inch main. Generally, Cal Am used a consistent average construction cost per linear foot for these projects.

(a) 05500151 Small Main Replacement Program (2006, 2007, 2008)

DRA concurs with the need for a small main replacement program. Cal Am has had a program since the 1990s. DRA recommends authorizing a level of expenditures equivalent to the five-year average (2000-2004) for the small main replacement project of $72,650 instead of approving the Cal Am requests for $149,000 during 2007 and $139,000 during 2008 because Cal Am has not demonstrated the ability to utilize the requested funding at the level previously authorized.

[8] Application No. 03-07-036, dated July 22, 2003, "Motion for Adoption of Settlement Agreement", page 9, and section 9.10.

During the discovery process DRA noted that many of the direct cost estimates for main replacement included a line item in the line immediately below the "Direct Cost Estimate" subtotal. It has been identified solely as "Additional Facilities (+30%)" and states a dollar value under the column labeled "Total Cost". It has been calculated at 30% of the Direct Cost Estimate and has been included in the Total Project Construction Estimate. No other text has been included in the capital investment project documentation to identify the nature of these costs. DRA verified that these costs, which had not been adequately identified in the Application, were not contingencies for unknown expenditures, and they were not overheads or indirect costs. Instead, during the field tour and in telephone discussion, DRA learned that this line item was intended to capture the labor costs for installing the services, the hydrants and other appurtenances (e.g., valves, thrust blocks, etc.) that are associated with these new distribution main projects. It includes traffic control costs, paving costs, mobilization costs and demobilization costs. A major portion of this line item includes the labor component for the actual installation of the service lines.[9] DRA understands from discussion that the Company plans to bring this matter to the attention of the internal capital investment management committee so they understand the need to provide better detail and explanation for this particular line item. DRA concurs that it is critical for Cal Am to provide the necessary detail for this type of expenditure. Cal Am has the data necessary to identify costs at that level of detail. DRA was surprised to find that there was a 30% "mark-up" for additional facilities in the main replacement projects, especially because Cal Am had highlighted the design/build process during the merger decision, that a key benefit for merging

[9] Telephone conversation between J. Steingass and F. Schubert, May 3, 2006, and documented by e-mail from F. Schubert to J. Steingass. Dated May 3, 2006.

was sharing best practices, including those related to Thames' advanced project delivery experience.[10]

Notwithstanding these additional explanations provided by the Company to describe the bases for the cost estimate, DRA recommends disallowing the charge calculated as 30% of the direct cost estimate to allow for "additional facilities" because Cal Am did not identify the nature of these costs nor document the bases for the additional facilities and the method used to include these additional expenses, which are not unusual, uncertain, nor difficult to delineate, is not acceptable. CPUC Standard Practice regarding utility plant[11] states, in part:

> "…Plant dollars to be included in the utility plant chapter should be only those amounts which are used and useful in the performance of service…"In analyzing a plant budget, the bases of the unit costs and quantities should be investigated to determine their reasonableness."

The guidance provided by the National Association of Regulatory Utility Commissioners (NARUC) Rate Case and Audit Manual[12] provides general principles for evaluating rate base items. It states:

> "…Many jurisdictions have used the concept of using the original cost of the plant or equipment to determine the value for the purposes of computing rate base. Under the original cost concept, the cost of the item at the time it was first put into utility service is the cost that remains with that item throughout its life"

[10] CPUC Decision D.02.12.068, page 14-15, section b) Design and Build

[11] CPUC Water Division Standard Practice U-5, dated September 2000, page 3, and page 11, Section D-Analysis of Construction Budget.

[12] Rate Case and Audit Manual, NARUC Staff Subcommittee on Accounting and Finance, Summer 2003, page 16.

In the absence of details in the Company's Application that identify the nature of the additional facilities, their number, and the related cost elements, DRA is not able to adequately verify reasonableness of the cost(s) of such proposed additions to plant.

(b) 05500152 Pump Equipment Improvements (2006, 2007, 2008)

Cal Am requested $155,000 for its annual program to replace older lower efficiency pumps and based the amount needed on what had been approved for this program during the 2003 GRC. This program has existed since the mid 1990s. DRA concurs with the need to perform periodic pump equipment improvements and recommends authorizing $138,600 for this project, using the five-year average (2000-2004) expenditures in lieu of using the Cal Am recommendation of $155,000. This project is a longstanding annual project with cost history extending over more than ten years. The Company provided documentation identifying the estimated O& M costs savings related to improving pump efficiency in the Master Data Request.

(c) 05500506 Baldwin Hills Fire Flow Improvement Program

DRA concurs with the need for this project as documented in the 1997 Hydraulic Evaluation of Pressure and Fire Flow Deficiencies Study of the Baldwin Hills Service Area. Cal Am requested $839,000 for the project, allocating $439,000 to 2007 and $400,000 to 2008. DRA recommends reducing the estimated project construction costs by $150,510 for this project because Cal Am did not document the justification for adding 30% to the project construction

estimate for additional facilities[13]. DRA recommends budgeting $688,490 for the project overall, allocating $363,750 for 2007 and $324,725 during 2008.

(d) 05500511 1600 feet of 8-inch Main in Circle Drive, San Marino

Cal Am requested $292,000 for this project to replace 1916 vintage main that has experienced 11 main leaks since 1999. DRA concurs with the need to replace this main. However, DRA recommends reducing the budget for this project by $48,050 because Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA recommends a budget of $243,950 for this project.

(e) 05500513 Installation of Main in Garth Reservoir Zone, Baldwin Hills

This project is proposed to install larger diameter main to comply with Los Angeles County Fire Department fire flow requirements and is part of the Comprehensive Planning Study and the 1997 Hydraulic Evaluation of Pressure and Fire Flow Deficiencies in Baldwin Hills. Cal Am requested $763,000 for this project. DRA concurs with the need to replace this main however; Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA recommends approving $596,070.

(f) 05500514 Installation of Main in Danford Reservoir Gradient, San Marino

Cal Am proposed this project to replace main based on fire flow improvements and the Comprehensive Planning Study. The six-year construction

[13] Based on the same line of reasoning documented earlier in this chapter in the section related to Small Main Replacement projects.

plan forecasts spending $100,000 during 2007 and Cal Am estimates the project to be $1.220 million and forecasts spending $100,000 during 2007 and $1.02 million during 2008. DRA concurs with the need to construct this project but on a different schedule than Cal Am. Additionally, Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA recommends: deferring construction until 2008 because this main replacement project has the lowest priority among those in the Comprehensive Planning Study; reducing the estimate by $226,900; approving $993,100; and spreading the expenditures as $496,500 during 2008 and $496,550 during 2009.

(g) 05500516 Installation of Main in Shenandoah from 55th to Bedford, Baldwin Hills

Cal Am proposed this project to replace 1956 vintage six inch cast iron main to improve flow capacity and improve fire flows in Baldwin Hills. The project is part of the 1997 Hydraulic Evaluation of Pressure and Fire Flow Deficiencies in Baldwin Hills and the Comprehensive Planning Study. Cal Am estimated the project at $360,000. However, Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA concurs with the need for the project and recommends approving $297,850.

(h) 05500519 Main in Lamanda Park Reservoir Gradient, San Marino

DRA concurs with the need to perform this project based on the 2000 Comprehensive Planning Study and City of San Marino Ordinance O-02-1164 approved during 2002, related to Fire Flow. Cal Am proposed $431,000 for this project. However, Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA recommends approving $390,150.

(i) 05500521 Installation of Main in Lemon Reservoir Gradient, Duarte

DRA concurs with the need for this project to improve fire flows by replacing undersized steel mains. This project was included in the 2000 Comprehensive Planning Study. Cal Am recommended $604,000 for this project. However, Cal Am did not document the justification for adding 30% to the project construction estimate for additional facilities. DRA recommends $501,580.

(j) 05500529 Santa Fe Well Improvement, Duarte

DRA concurs with the need to install a well casing at the Santa Fe well in the Duarte service area to ensure that the well operates effectively and concurs with the Cal Am cost estimate of $150,000 for this project. This project was included in the 2000 comprehensive planning study. The direct cost estimate for this project was adequate and did not include a line item for "Additional Facilities (+30%)"

5) Proposed Advice Letter Projects

(a) 05500503 Patton Well & Oak Knoll Circle Treatment Project, San Marino

Approved by the CPUC during the 2003 General Rate Case, the 2003 General Rate Case Settlement Agreement between Cal Am and CPUC stipulated that this project be authorized at total expenditures of $3.25 million, and spread the expenditures over 3 years with $1 million in each of 2004 and 2005 and the remaining 1.25 million for 2006. Individuals attending the Public Participation Hearings have voiced concern that ratepayers should not be penalized because wells had to be shut down due to pollution. The Company should make every effort to determine the liable parties that caused the contamination that motivated closure of the

wells in San Marino and make all attempts to recover the costs from the responsible parties to cover costs of the infrastructure improvement.

> "And the city ratepayers should not be penalized because of the need to shut down some of the wells because they are polluted. And particularly this was true in an area north of the city here where – or north end of our city where they have to -- they claimed they had to put in a large infrastructure improvement to service a very few customers because of these polluted wells and needing access to outside water sources." [14]

In part of Cal Am's response to DRA Data Request JWS7-3, Cal Am indicated that they plan to pursue litigation against the potential responsible parties:

> "…Phase III involves studying plume migration and retracing the plume to sources of contamination. Completion of Phase III will provide California American Water and the other producers with the factual basis and technological capacity to identify the Raymond Basin PRPs. California American Water, in coordination with the Raymond Basin producers and the Raymond Basin Management Board, will then proceed as appropriate in pursuing litigation against the PRPs."

DRA concurs with the need for the project and its submittal as an Advice Letter because of its size, complexity, and uncertainty regarding regulatory requirements. DRA recommends that the project expenditures must be accumulated and recorded in a memorandum account because the project is related to potential water contamination litigation case(s). A second memorandum account should be established to accumulate litigation cost recovery or litigation settlements that are recovered from the parties responsible for the groundwater contamination.

[14] Transcript of Public Participation Hearing held at San Marino, CA, 04/05/06, page 47, line 23

The ratepayers have the expectation that the groundwater contamination should be tested and contamination should be traced back to the source so that the responsible parties may be identified and held accountable for the well re-drilling project costs. When recorded to rate base, the project costs should be spread evenly over a 3-year period. The Commission should mandate that Cal Am seek financing under Proposition 50 and other specialized funding programs, make any necessary adjustments to rates to city of San Marino customers or other involved customers upon receiving litigation settlements from responsible parties involved in contamination cases, and that the Commission authorized expenditures should be based upon a competitive bidding process of a minimum of three qualified bidders in accordance with the authorized Cal Am procurement procedures. Up until the time that a competitive bidding process has been conducted, the preliminary cap on expenditures should be set at not to exceed $4.124 million based on the Stetson Engineering estimate included in the application.

(b) 05500522 850 feet of 16-inch main to reinforce Baldwin Avenue Railroad Crossing, San Marino

Cal Am proposed to install 850-feet of 16-inch main to maintain adequate system pressure as part of the 2000 comprehensive planning study. This project is part of the Alameda East Corridor grade separation project which mandates the main relocation. DRA concurs with the need to complete this project and its submittal as an Advice letter because of the uncertainty of the project schedule. DRA recommends that Cal Am's estimate of $179,000 should be reduced to $160,000 to eliminate the undocumented charges for 30 % additional facilities.

DRA incorporated the recommended adjustments to Cal Am's proposed plant additions in the calculations for DRA's recommended ratebase as shown in Table 7-1 and Table 7-2.

TABLE 7-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

PLANT IN SERVICE

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	69,431.5	72,573.3	3,141.8	4.5%
Additions				
Gross Additions	3,099.0	6,317.0	3,218.0	103.8%
Retirements	(148.3)	(148.3)	0.0	0.0%
Net Additions	2,950.7	6,168.7	3,218.0	109.1%
CWIP - BOY	0.0	0.0	0.0	0.0%
CWIP - EOY	0.0	0.0	0.0	0.0%
Net Change - CWIP	0.0	0.0	0.0	0.0%
Plant in Service - EOY	72,382.2	78,742.0	6,359.8	8.8%
Weighting Factor	42.69%	42.69%		
Wtd. Avg. Plant in Service	70,691.2	75,206.7	4,515.6	6.4%

TABLE 7-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2008

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	72,382.2	78,742.0	6,359.8	8.8%
Additions				
Gross Additions	3,299.8	5,263.0	1,963.2	59.5%
Retirements	(271.2)	(271.2)	0.0	0.0%
Net Additions	3,028.6	4,991.8	1,963.2	64.8%
CWIP - BOY	0.0	0.0	0.0	0.0%
CWIP - EOY	0.0	0.0	0.0	0.0%
Net Change - CWIP	0.0	0.0	0.0	0.0%
Plant in Service - EOY	75,410.8	83,733.8	8,323.0	11.0%
Weighting Factor	42.69%	42.69%		
Wtd. Avg. Plant in Service	73,675.1	80,873.0	7,197.9	9.8%

CHAPTER 8: DEPRECIATION RESERVE AND EXPENSE

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations on depreciation reserve and expense for Cal Am's rate increase application for Los Angeles District. The tables at the end of the chapter provide DRA's and Cal Am's estimates for Depreciation Reserve and Expense for test year 2007 and escalation year 2008.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for test year 2007 and escalation year 2008. Differences between DRA and Cal Am values for depreciation reserve or expense are due to differences in proposed plant additions.

C. DISCUSSION

As part of its review, DRA compared the values reported in the GRC application with Cal Am annual reports to track beginning of year depreciation reserves. The beginning of year depreciation reserve for 2005 is $23,533 million according to the Application and workpapers. Cal Am derived the composite rates from a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. Cal Am uses the five-year average (2000-2004) of 3.49% for the composite depreciation rate. The differences between Cal Am's and DRA's estimates for depreciation reserve or expense are related to the differences in plant additions.

Cal Am calculated the weighting factor for depreciation reserve as 60.58% by using a six-year average (1999-2004). They used the recorded amounts and

provided working papers to show their calculation of the weighting factor[15]. DRA determined that a five-year average weighting factor (2000-2004) would be 60.3%, and determined that difference is insignificant.

D. CONCLUSION

DRA reviews and accepts Cal Am's methodology and its estimate of 60.58% for the weighting factor.

[15] Cal Am Ratebase Workpapers, filename: WGTDEPR.xls.

TABLE 8-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007

	Item	DRA	CalAm	CalAm exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	27,948.2	26,807.9	(1,140.3)	-4.1%
	Accruals				
	Salvage and Cost of Removal	(29.2)	(29.2)	0.0	0.0%
	Contribution	127.5	127.5	0.0	0.0%
	Depreciation Expense	2,046.9	2,051.5	4.6	0.2%
	Adjustments	351.7	351.7	0.0	0.0%
	Total Accruals	2,496.9	2,501.5	4.6	0.2%
	Retirements	(148.3)	(148.3)	0.0	0.0%
	Net Accruals	2,348.6	2,353.2		
	Depreciation Reserve - EOY	30,296.8	29,161.1	(1,135.7)	-3.7%
	Weighting Factor	60.58%	60.58%		
1	Wtd. Avg. Depr. Reserve	29,371.0	28,233.5	(1,137.5)	-3.9%

TABLE 8-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008

	Item	DRA	CalAm	CalAm exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	30,296.8	29,161.1	(1,135.7)	-3.7%
	Accruals				
	Salvage and Cost of Removal	(51.9)	(51.9)	0.0	0.0%
	Contribution	127.5	127.5	0.0	0.0%
	Depreciation Expense	2,123.2	2,205.8	82.6	3.9%
	Adjustments	381.1	381.1	0.0	0.0%
	Total Accruals	2,579.9	2,662.5	82.6	3.2%
	Retirements	(271.2)	(271.2)	0.0	0.0%
	Net Accruals	2,308.7	2,391.3		
	Depreciation Reserve - EOY	32,605.5	31,552.4	(1,053.1)	-3.2%
	Weighting Factor	60.58%	60.58%		
1	Wtd. Avg. Depr. Reserve	31,695.4	30,609.7	(1,085.7)	-3.4%

CHAPTER 9: RATE BASE

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of rate base for Cal Am's Los Angeles District. Tables 9-1 and 9-2 at the end of this report compare DRA's and Cal Am's estimates. Differences are due to different estimates of plant additions, depreciation reserves and working cash allowance. DRA recommends a weighted average rate base of $35.1 million for test year 2007. Cal Am's request exceeded the DRA recommendation by 5.2 million or 14.9%. Tables 9-1 and 9-2 at the end of this chapter provide a summary of DRA's weighted average rate base and depreciated rate base.

B. DISCUSSION

1) Materials and Supplies

DRA has no dispute regarding Cal Am's estimated expenses of $53,900 for materials and supplies for test year 2007.

2) Working Cash Allowance

Cal Am produced a lead/lag calculation of working cash that indicates a positive working cash allowance (operational) of $174,000 and a working cash allowance (lead-lag) of $460,300 for test year 2007. DRA agrees with Cal Am's calculation of average lag days, but disagrees with some of the expenses included in the lead/lag calculation. DRA recommends some adjustments to Cal Am lead/lag calculation and the estimated working cash allowance. DRA does agree with Cal Am's operational working cash allowance of $174,000 with some adjustment. Since DRA recommends a different rent amount in A&G expenses, the rent prepayment amount is adjusted accordingly. This adjustment then calculates the operational working cash allowance to be $158,600.

For the lead-lag working cash allowance DRA calculates $787,800 for test year 2007 compared to Cal Am's $460,300. The key reasons for the differences include: 1) different estimates of expenses by Cal Am and DRA, 2) Cal Am made an error in that they used the negative OPEB benefit amount of ($11,800) twice in their lead-lag working cash allowance which DRA did not, and, 3) the biggest difference is how DRA derived the lead-lag working cash allowance. DRA multiplied the Total of Expenses and Taxes by the Net Expense Lag Days (Revenue Lag Days minus the Expense Lag Days) then divided by 365 days to derive $787,800. However, Cal Am, in a cell linking error in their spreadsheet, used the summation of each expense item multiplied by its lag days to derive the Total Lag Day Expense divided by 1,000 resulting in $460,300 (as shown on Cal Am's spreadsheet in Exhibit A, chapter 11, section 1, page 1 of 8). After checking with Cal Am's staff the error was confirmed by the company.

DRA and Cal Am estimated working cash in accordance with Standard Practice U-16. The differences result from different expense estimates. However, DRA does not agree with U-16's inclusion of depreciation expenses when developing the working cash allowance for water utilities, but acknowledges that water utilities must follow U-16 unless it is changed by the Commission. DRA expects to pursue this change by requesting a formal review of U-16 in the appropriate Commission forum.

3) Net to Gross Multiplier

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. DRA agrees with the methodology used to calculate the Net to Gross Multiplier. DRA agrees that the Net to Gross Multiplier proposed by Cal Am of 1.74627 should be applied in developing the revenue requirement change calculation for the escalation year 2008.

Cal Am and DRA used the same methodology to calculate the net-to-gross multiplier. DRA used the same uncollectibles rate as Cal Am. Cal Am does not have franchise taxes or business license taxes in the communities served by Los Angeles District.

TABLE 9-1

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007

Item	DRA	CalAm	CalAm exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	70,691.2	75,206.7	4,515.6	6.4%
Materials & Supplies	53.9	53.9	0.0	0.0%
Working Cash-Operational	158.6	174.0	15.4	9.7%
Working Cash-Lead-lag	773.4	460.3	(313.1)	-40.5%
Wtd. Avg. Depr. Res.	(29,371.0)	(28,233.5)	1,137.5	-3.9%
Advances	(272.1)	(272.1)	0.0	0.0%
Contributions	(3,113.3)	(3,113.3)	0.0	0.0%
Accum Def. Fed Inc Tax	(4,167.6)	(4,260.8)	(93.2)	2.2%
Accum Def. State Inc Tax	(457.8)	(479.6)	(21.8)	4.8%
General Office Alloc	799.4	799.4	0.0	0.0%
Average Rate Base	35,094.6	40,335.0	5,240.4	14.9%
Interest Calculation:				
Avg Rate Base	35,094.6	40,335.0	5,240.4	14.9%
x Weighted Cost of Debt	3.78%	4.07%	0.29%	7.7%
Interest Expense	1,326.6	1,641.6	315.1	23.7%

TABLE 9-2

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008

	Item	DRA	CalAm	CalAm exceeds DRA Amount	%
		(Thousands of $)			
	Wtd.Avg. Plant in Service	73,675.1	80,873.0	7,197.9	9.8%
	Material & Supplies	54.8	54.8	0.0	0.0%
	Working Cash - Operation	158.6	174.0	15.4	9.7%
	Working Cash - Lead-Lag	798.4	470.3	(328.1)	-41.1%
	Wtd. Avg. Depr. Reserve	(31,695.4)	(30,609.7)	1,085.7	-3.4%
	Advances	(260.6)	(260.6)	0.0	0.0%
	Contributions	(3,159.6)	(3,159.6)	0.0	0.0%
	Accum Def. Fed Inc Tax	(4,290.2)	(4,445.1)	(154.9)	3.6%
	Accum Def. State Inc Tax	(491.1)	(527.3)	(36.2)	7.4%
	General Office Alloc	799.4	799.4	0.0	0.0%
	Average Rate Base	35,589.4	43,368.9	7,779.6	21.9%
	Interest Calculation:				
	Avg Rate Base	35,589.4	43,368.9	7,779.6	21.9%
	x Weighted Cost of Debt	3.78%	4.03%	0.25%	6.6%
1	Interest Expense	1,345.3	1,747.8	402.5	29.9%

TABLE 9-3

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007

Item	DRA	CalAm
1) Uncollectibles %	0.30510%	0.30510%
2) 1-Uncoll (100%-line 1)	99.6949%	99.69490%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.30510%	0.30510%
8) 1-Subtotal (100%-line7)	99.69490%	99.69490%
9) CCFT (line 8 * state tax rate)	7.53693%	7.53693%
10) FIT (line 8 * 35%)	34.89322%	34.89322%
11) Total taxes paid (ln 7+ln 9+ln 10)	42.73525%	42.73525%
12) Net after taxes (1-line 11)	57.26475%	57.26475%

Net-to-Gross Multiplier (1/line 12) = 1.74627 (DRA)

1 Net-to-Gross Multiplier (1/line 12) = 1.74627 (Utility)

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed Cal Am's filing and updates, and data obtained from the Commission's Consumer Affairs branch regarding customer complaints for the years 2003, 2004 and 2005. There have been 6 complaints filed by customers with the Commission in that time; one concerning water pressure, one concerning water turned off, three concerning billing errors, and one concerning high water bill.

B. SUMMARY OF RECOMMENDATIONS

DRA finds Cal Am's customer record satisfactory and finds Cal Am's customer service process reasonable. DRA recommends that the Commission finds Cal Am's customer service response to water service complaints to be satisfactory.

C. DISCUSSION

Cal Am's records indicate that the number of inquiries have been average relative to the number of customers in the Los Angeles District. Cal Am has provided the number and types of inquiries received at their call centers for the Los Angeles District as shown in the table below.

Year	Water Quality	Pressure	High Usage	Meter Reading Investigations	Other	Percentage of total customers
2000	178	150	592	1233	18	8%
2001	342	202	607	638	26	7%
2002	149	124	714	1281	15	8%
2003	397	111	835	1675	69	11%
2004	172	206	629	1537	202	10%

Cal Am has two national call centers to provide around-the-clock customer service. These call centers are operated in conjunction with other American Water subsidiaries for cost savings purposes but can provide prompt response to complaints and inquiries. Recent implementation of Cal Am's program called "Service First" has improved response time for customer service. Service First program covers all aspects of customer service from initial call to one of the 24-hour call centers, to scheduling the service response, to monitoring the status of the service order, to completion of follow-up activities. Service First program uses wireless mobile laptop computers in each service vehicle to manage and record work orders, provides up-dates to the customer service representatives from field locations, and emergency service orders can be dispatched directly to field personnel. This program promotes efficient use of field personnel's time and quick response to customer needs.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations on rate design for Cal Am's rate increase application for Los Angeles District. The present rates used by Cal Am in its application became effective January 1, 2005 as authorized by D.04-09-041 dated September 23, 2004.

B. SUMMARY OF RECOMMENDATIONS

In the current 2006 GRC application A.06-01-005, Cal Am proposes four Special Requests that affect rate design: Special Request 2-Variance from Standard CPUC Rate Design; Special Request 3- Full Integration of Tariffs; Special Request 4-Temporary Implementation of a Low Income Tariff; and Special Request #5-Full Cost Purchased Water and Electric Power Balancing Account. Chapter 12 of this report addresses one of these special requests in more detail, Special Request 4-Temporary Implementation of a Low Income Tariff. Special requests 2 and 5 related to rate design should be considered in conjunction with Cal Am's proposal for a new rate design. Until such discussions and requests have been resolved, DRA supports and recommends that rate design should follow the existing CPUC Water Division Standard Practice U-7-W, "Rate Design and Tariff Numbering for Water and Sewer System Utilities".[16]

[16] Effective May 2004.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on the special requests made by Cal Am's for the Los Angeles District.

B. SUMMARY OF RECOMMENDATIONS

Special Request #1: *Implementation of an Infrastructure System Replacement Surcharge (ISRS).* DRA opposes Cal Am's request to implement a surcharge designed to recover additional fixed costs associated with capital expenditure investments for the replacement or rehabilitation of certain non-revenue producing, non-expense reducing construction projects.

Special Request #4: *Temporary Implementation of a Low Income Tariff.* DRA supports this request to implement a low income tariff which offers a reduction in their monthly water bill, but with recommended specifics explained in the discussion section below.

Special Request #7: *Request for an American Jobs Creation Act Tax Memorandum Account.* DRA supports the request by the company to establish a memorandum account to track the actual tax changes and effects of the as yet to be determined tax liabilities.

C. DISCUSSION

1) Special Request #1: Implementation of an Infrastructure System Replacement Surcharge (ISRS).

In light of increasing statewide concerns about water quality and supply, the Commission stated in its Water Action Plan (approved December 15, 2005) that the Commission will explore innovative solutions to water problems and keep pace with newer approaches it is implementing in the energy and

telecommunications sectors as well as strategies being used by water agencies and entities not subject to Commission jurisdiction. The Commission indicated that it would consider authorization of a distribution system improvement charge to promote infrastructure improvements to provide further incentive for water utilities to finance capital improvements. DRA participated in the development and supports the objectives and intent of the Water Action Plan.

Cal Am proposed in A.06-01-005 a customer surcharge for infrastructure improvements. Only the "non revenue generating projects" such as main replacement or infrastructure improvements would be eligible to be on ISRS. Cal Am proposes to calculate it quarterly based on completed operational projects. Cal Am models it after the Distribution System Infrastructure Charge (DSIC) that the Company has implemented in Pennsylvania. In summary, this surcharge would provide a separate and isolated revenue stream dedicated for infrastructure improvement, limited to ten percent of the overall revenue requirement. It accelerates the payment to the Company of the elements comprised of depreciation, ad valorem taxes and rate base. In response to DRA Data Request JWS8-1, Cal Am provided summary of total revenue requirement under the ISRS Program. Their cost schedules showed that Cal Am would essentially receive $231,000 in funding during 2007, earlier than they would receive under the normal mechanism. Under the ISRS program, the resulting rate increase would be 10.88% for the test year 2007. Without ISRS, the rate increase would be 9.15%.[17]

DRA does not agree with Cal Am's proposal to seek an infrastructure replacement surcharge because circumstances clearly do not warrant its development. DRA points out that the National Association of State Utility Consumer Advocates (NASUCA) has called upon state regulatory authorities to

[17] California American Water Company Exhibit A, Chapter 4, Section 1, page 4 of 5, dated 1/9/2006.

refuse to allow annual tracking adjustments to rates resulting from additional non-traditional water infrastructure replacement programs[18]. NASUCA takes this position because:

- Traditional ratemaking methodologies have allowed investor shareholders to earn a return on new or upgraded mains through general rate case reviews, allowing ratepayers to be charged for prudent and necessary system upgrades[19];

- Traditional ratemaking processes have withstood the test of time, so that all parties represented have an opportunity to have their interests fairly represented; an ISRS could potentially make the ratepayers become involuntary investors paying for unreviewed investments that will increase rates[20];

- The ISRS method may, in effect "speed up" recovery of costs outside of normal regulatory process, and subvert the purpose of the rate review process, regulatory authorities may not be able to review the prudency of capital investments. Regulators need to understand the potential significant new burden upon consumers caused by a tracking surcharge for plant additions.

The National Regulatory Research Institute prepared a report regarding replacement of the water utility infrastructure. In it, NRRI pointed out that there are tools available to help water systems make financial decisions about capital

[18] National Association of State Utility Consumer Advocates (NASUCA) Resolution 2005-03, "Infrastructure Surcharge Resolution", June 12, 2005.
[19] Ibid.
[20] Ibid.

investment and renewal and replacement of assets.[21] And, that better asset management has become a focus of the AWWA Board of Directors in its updated asset management policy. The report goes on to point out that in some jurisdictions, an ISRS-style surcharge is serving to motivate water utilities that had "fallen behind" in asset management, or which needed to "catch up" or "accelerate" their infrastructure replacement.

NRRI report indicated that surcharges such as these had been used almost exclusively for emergency purposes – drought, natural disaster. They stated,

> "..Given the political sensitivity of implementing surcharges, it is clear there must be compelling reasons for their use, and that their use is somewhat limited".[22]

(a) In Pennsylvania where the distribution system infrastructure charge originated, water utilities use a historical accounting form of regulation while in California we have a forecasted test year format. Consequently, Pennsylvania utility companies may more vividly experience regulatory lag because the actual costs of capital projects are not considered until the next rate case after construction is completed and actual capital expenditures have been recorded on the company's books. A Pennsylvania American Water Company would have a clear-cut reason to claim earning attrition was occurring and that they had a time lag in achieving cost recovery. Because California uses a forecasted test year projection to develop rates, including a second test year for plant additions,

[21] National Regulatory Research Institute, "Replacing and Securing Water Utility Infrastructure", February 2004, page 10.
[22] Ibid, page 15.

the type of earnings attrition and regulatory time lag experienced by Pennsylvania companies does not occur here.

(b) In its Application, Cal Am has inadequately established the need for an alternate revenue stream to fund capital investment because of an aging deteriorated infrastructure due to age, condition, operating needs, or risk of failure. They have not demonstrated the company has experienced a form of hardship that necessitates a surcharge of this type. Throughout its Application, it is clear that Cal Am customers have been enjoying safe reliable service. Customers have not been inordinately complaining about service, there is an absence of distribution system disasters; customers are not widely complaining that their rates are too high.

(c) The rate increases to subsidize infrastructure replacement through normal ratebase increases are not out of range such that rate shock is not imminent. Infrastructure replacement accomplished with the existing capital funding mechanisms remains comparatively affordable. Other states needed an ISRS to help alleviate the impact of rate increases that result from large capital expenditure budgets on the levels of 25%, 50%, or 100% rate increases and the resulting rate shock experienced by ratepayers. These types of surcharges are more appropriate for Class C or Class D water utilities, which experience comparatively significant increases due to infrastructure deterioration, and more significant needs for alternative revenue streams. In the worst case in this application, the largest rate increase forecasted by Cal Am was 10.88% with ISRS and 9.15% percent without ISRS.

(d) Cal Am has inadequately prepared the foundation for an ISRS. It does not appear to have a master plan for infrastructure

rehabilitation or replacement that first catalogues the targeted facilities that warrant rehabilitation or replacement, defines its plans, priorities, and estimates to perform the replacement or rehabilitation, estimates the capital investment needed and provides the financial impact to ratepayers. In NRRI's report, it quotes a former president and CEO of the American Water Works Company, saying:

> "There is absolutely nothing new or particularly complicated about the issue of infrastructure replacement"[23]

During the merger with its parent company, Cal Am had cited one of the benefits from merging would be the sharing of best practices, among them improvements to the service delivery process, or for capital investment improvements[24]. An ISRS surcharge does not ensure that utilities are adequately performing capital planning, nor that they are working to know their own systems well enough to prioritize the location and timing of infrastructure rehabilitation and replacements.[25]

> "The estimates of infrastructure replacement needed are very uncertain and may be too large, the amount of money that water systems must spend … can vary dramatically".[26]

(e) While Cal Am claims in its application that CPUC will have adequate controls by maintaining the ability to dis-allow funding of

[23] NRRI, page 15.

[24] Application No. 03-07-036, dated July 22, 2003, "Motion for Adoption of Settlement Agreement", page 9, and section 9.10.

[25] NRRI, at page 16.

[26] IBID, quote from Perry Beider of the Congressional Budget Office, testimony before Committee on Energy and Commerce, March 28, 2002.

imprudent capital investments, approving ISRS prior to receiving a Cal Am master plan for infrastructure rehabilitation or replacement may subvert a primary Commission oversight role. Commission monitoring of additions to plant ensures that company assets are not replaced prematurely and ensures that companies have methods in place to set reasonable priorities, and "replace the right pipe at the right time". During this 2006 GRC proceeding, Cal Am worked from its Comprehensive Planning Studies (CPS) dating from 2000 that utilized system or operating data from 1999.

(f) Cal Am does not appear to have adequately documented why existing options for addressing capital investment needs are not appropriate. Cal Am is a company in good standing with an "A" credit rating and requests capital investment budgets on the level of 5 million dollars annually. Existing ratemaking includes provisions for depreciation, allowance for funds used during construction or "interest during construction" for long duration projects, and construction work in progress (CWIP), each of which the intent is to compensate for accelerating the company collection of funds, or to assist in funding for infrastructure improvement. Up until last year, Cal Am had been tracking Construction Work in Progress, and had the ability to utilize that mechanism for capital investment projects.

Justification for the need of an ISRS in other states had been based on extensive numbers of miles of aged and deteriorated systems and a need to motivate companies to accelerate the replacement of their systems whereby their customers in the absence of an ISRS would have been burdened with rate increases that could truly be called rate shock. In its application, Cal Am has not substantiated that the ISRS is necessitated by the condition of the Cal Am system. It has not provided a significant level of information regarding asset management policies and procedures nor

included a system condition assessment justifying the urgency to establish an ISRS[27]. Aspects of the system's condition have been included in each individual project need justification. The current CPS characterizes that over two-thirds of the pipe material in the Duarte system as predominantly unlined steel pipe and that much of the Duarte piping is over forty years old. Baldwin Hills is described as predominantly cast iron comprising over sixty percent of the system and much of the system as over 50 years old. The San Marino system was characterized as much of it being over 50 years old. In other parts of the country, the utilities had been concerned with dramatically older systems in the age range of upwards to 80 to 120 years old[28].

(g) In at least four other states, including Pennsylvania, Illinois, Indiana, and New York, the cap on the infrastructure surcharge is set at 5% of the revenue requirement. Cal Am requests 10% but has not established the basis for this alternate design of the surcharge. There is not a precedent in the other states for a 10% cap.

Cal Am refers to savings and efficiencies that would be gained by reducing Staff time in evaluating capital investment projects, but has not identified the amount of savings that could be generated. Yet, Cal Am proposes to implement a surcharge that would complicate the regulatory procedures in place and tax the Commission's limited resources by increasing the burden upon staff and the need to conduct audits of recorded expenditure amounts. Finally, in response to the DRA request for a copy of

[27] AWWA policy statement on asset management states that water utilities must adopt a proactive approach to the management of their assets, including criteria for signaling the need for rehabilitation or replacement.

[28] Public Water Supply Distribution Systems, Assessing and Reducing Risks – First Report (2005), page 4.

the financial analysis of ISRS that the Company used to justify to Company management, to seek the ISRS surcharge in this GRC, the Company responded that they were not aware of any financial analysis performed by the Company on ISRS. Cal Am stated that the Company's decision to seek the ISRS surcharge was made in anticipation of the Commission's approval of the Water Action Plan and its overall experience with ISRS in other states.[29]

(h) In Cal Am's response to DRA Data Request JWS8-3, Cal Am states:

> "The ISRS program will eliminate some uncertainty and inefficiencies in the ratemaking process for customers, regulatory staff and the Company. Customers will only pay for what is actually built and put into service, DRA and Water Division staff time spent analyzing rate applications will be reduced and the Company will recover its investment and earn a return in a timely manner. The ISRS program will also allow the Company to replace the infrastructure that is in the greatest need of replacement each year, instead of attempting to forecast exactly what plant will be replaced within a rate case cycle. In turn, customers will benefit because older, more leak prone or less efficient plant will be replaced. Comparison of past rate case allowances to actual expenditures will be eliminated and staff can turn its focus to determining if the expenditures were appropriate."

Cal Am clamors for more flexibility to replace infrastructure and posits that they cannot forecast which infrastructure is in greatest need of replacement each year, yet they already have the ability under existing mechanisms to develop a reasonable plan and schedule of replacements and they already have the ability to switch and re-prioritize projects due to sudden changes in conditions or changes in

[29] Cal Am's Response to DRA Data Request JWS8-2.

city or county priorities. The Company already has budget structures that allow replacement due to catastrophic failures and emergency situations.

Regarding the request in Cal Am's A.06-01-005, DRA does not recommend Commission support the creation of an infrastructure system replacement surcharge because Cal Am has inadequately justified that the surcharge is necessary and has not adequately demonstrated that, by implementing this new surcharge, there would be a material benefit to the Company, the ratepayers, the staff, and the Commission. The current capital investment mechanisms under forecasted test years have worked and continue to be the most efficient way to set rates under cost of service regulation. An alternative that would administratively burden and increases complexities is contra-indicated at this time.

DRA recommends that the Commission find the existing capital funding mechanism, adopted and presently in use by the Commission, is a satisfactory and appropriate capital funding mechanism for Cal Am's Los Angeles District. If the Commission were to approve Special Request #1, it is DRA's opinion that it would be setting a bad precedent in providing an infrastructure surcharge when it is not warranted or justified. Finally, DRA recommends that Cal Am withdraw consideration of Special Request #1.

2) Special Request #4: Temporary Implementation of a Low Income Tariff.

Cal Am requests authorization to initiate a temporary Low Income Program for its Los Angeles District qualifying residential customers. This Low Income Program provides a fixed sur-credit of $6.50 to each participating customer's monthly bill, which is equal to approximately 15% of the average monthly residential water bill at present rates. Cal Am requests authorization to track the revenue loss as a result of this sur-credit allowance along with program

implementation costs in a WRAM account. Cal Am proposes that this program only be temporary until a generic policy for all water utilities has been adopted by the Commission. Or, if no state wide program has been adopted, then the Cal Am low income program should end by the time the base rates are implemented at the end of the next GRC proceeding for its Los Angeles district. Cal Am proposes that this Low Income proposal only be authorized if Special Request #2 (Variance from standard CPUC Rate Design) and #3 (Full Integration of Tariffs) are authorized, stating that all three proposals are closely linked to improve the effectiveness of conservation programs.

At this time Cal Am does not propose a rate increase, or surcharge, for non-low income customers to rectify the revenue loss. Instead, Cal Am requests approval to track all lost revenues in a either a WRAM account or a memorandum account. It should be noted here that there is some confusion as to what Cal Am is asking for, either a WRAM account or a memorandum account since both are mentioned. In Cal Am's Special Request section of Exhibit A, Chapter 13, the request for a WRAM account is mentioned. But, in Cal Am's "Response to Administrative Law Judge Request" of February 27, 2006, a memorandum account is stated. Cal Am also want to track all costs incurred to develop this low income program, including incremental franchise fees, and uncollectible.

DRA recognizes the importance of establishing a program for Low Income customers and supports Cal Am's basic proposal. DRA recommends that Cal Am's low income assistance program be approved but should be designed similarly to the other Low Income Assistance programs already approved by the Commission, such as, San Gabriel Valley Water Company D.05-05-015, and Apple Valley Ranchos Water Company D.05-12-020. Those programs allowed a separate memorandum account to be used to track the difference between the actual amount of revenue loss and the additional revenues collected by a surcharge to the non-low income customers, plus implementation costs incurred. Although

Cal Am does not propose to add a surcharge to its non-low income customers at this time, a memorandum account should be approved to track the revenue losses and program implementation costs so the appropriate surcharge can be established in its next rate case. This memorandum account would then be examined at the next GRC and rate adjustments made at that time.

DRA does not agree with having the Cal Am Low-Income assistance program be temporary and end at the next GRC. As Cal Am states in their proposal,

> "the proposed program should only be temporary and disbanded when a generic policy for all water utilities has been adopted by the CPUC. In the alternative, the program should have a defined life that will end on 1-1-10 when base rates are implemented in the next GRC for the Los Angeles district if the CPUC has not moved to open a proceeding to institute a generic statewide low-income program for all water utilities."

DRA recommends the Cal Am Low-Income assistance program should continue until the time of its Los Angeles district's next GRC where it will be reviewed. Or, the program should be adjusted to meet the criteria when, and if, the Commission adopts a generic state wide low income assistance water program.

DRA does agree with the proposed sur-credit of $6.50 per month only for the residential customers who qualify under the energy CARE program income guidelines. As in other approved programs, residential customers must provide proof of CARE eligibility/participation in order to qualify for the water low-income assistance credit. Otherwise, DRA recommends that Cal Am use those same guidelines for all customers who may not be participating in CARE but still would qualify for low-income assistance.

Cal Am's Low Income assistance program should be consistent with energy's CARE program income eligibility guidelines which would make it easier

to be understood by customers familiar with CARE. This would also make it easier for Cal Am to implement the programs because customers in the CARE program would only need to provide a copy of their energy bill to prove their eligibility and participation in CARE, thus making them eligible to receive Cal Am's low-income assistance credit on their water bill. While $6.50 credit does provide an adequate reduction to total amount of their bill, it does not encourage the customer to be excessive in their future water consumption.

DRA would also advise Cal Am to make a concerted effort to target low-income customers in their conservation programs in order to assist these customers to conserve water which lowers their monthly water consumption thus lowering their water bill.

3) Special Request #7: Request for an American Jobs Creation Act Tax Memorandum Account.

The American Jobs Creation Act (AJCA) of 2004 created a new tax deduction for manufactures and added new section 199 to the Internal Revenue Code. The deduction is equal to a specified percentage applied to the lesser of (1) qualified productions activities income for the year, or (2) taxable income for the year. The new deduction starts at a transition percentage of 3% for 2005 and 2006, 6% for 2007 through 2009, and 9% for when fully phased in by 2010. The deduction is limited to 50% of the W-2 wages paid by the "manufacturer" for the tax year.

Cal Am is requesting approval to track the tax effects of the American Jobs Creation Act (AJCA) in a memorandum account with the ability to determine in the future how to provide the benefits back to ratepayers. At the time of this application the IRS had not yet finalized the regulation, and Cal Am has not been able to determine how this new tax law will affect its tax liabilities. IRS

regulations will explain what business activities qualify as “manufacturing” as well as how to calculate the correct production activity income.

DRA supports the need for Cal Am to track the tax effects of the AJCA in a memorandum account. DRA recommends that the company be allowed to establish a memorandum account at this time. However, once the full effect is known, and no later than 6 months after the reduction in taxes, the company should implement the rate effect on customer’s bill

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 5, 2007, Cal Am should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for Cal Am for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008 and 2009. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA AMERICAN WATER COMPANY
LOS ANGELES DISTRICT

Item	DRA 2008 (Thousands of $)	DRA 2009	% increase	
Operating revenues	18,456.4	18,807.9	1.9%	Esc. Factor
Operation & Maintenance	6,410.3	6,532.1	1.9%	1.019
Administrative & General	3,299.9	3,365.9	2.0%	1.020
G.O. Prorated Expense	2,415.7	2,461.6	1.9%	1.019
Depreciation & Amortization	2,123.2	2,163.5	1.9%	1.019
Taxes other than income	560.0	570.6	1.9%	1.019
State Corp. Franchise Tax	171.9	177.0	2.9%	
Federal Income Tax	713.6	737.0	3.3%	
Total operating expenses	15,694.6	16,007.8	2.0%	
Net operating revenue	2,761.7	2,800.1	1.4%	
Rate base	35,589.4	36,084.2	1.4%	
Return on rate base	7.76%	7.76%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
YOKE W. CHAN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapter 1, Chapter 4 – rent and regulatory commission expenses and Chapter 13 of DRA's Reports on the Results of Operations for California American Water Company's Los Angeles district.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS STATEMENT
OF
VIBERT GREENE

California Public Utilities Commission (Commission).

DUTIES AND RESPONSIBLITIES:

I am presently employed as a Utilities Engineer in the Division of Ratepayers Advocates of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to Rate Design, analyses of Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses and Utility Plant in Service.

My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

EDUCATIONAL BACKGROUND

Ph D research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century. I have two patents. And, DOD & DOE Secret Clearances; I am also a volunteer with San Francisco Police Department and a Part-time College instructor. In addition, I have successfully completed three months of Police training at the Newark Police Department's Citizen Police Academy.

BUSINESS EXPERIENCES

After graduation from Berkeley, I joined the Commission. I worked on various formal proceedings before this Commission, including various types of rate proceedings,

valuation studies and other investigations initiated by the Commission. I have analyzed various aspects of utility operations including plant, depreciation, operations and maintenance expenses, administrative and general expenses, rate design, and general office expenses & revenues. Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I have been a Director of Lexington Square Homeowners' Association for 12 years and the President for 6 years. I ran twice for the Newark City Council and was nominated in 2004 by the Argus Newspaper as the best candidate for the Alameda County Board of Education district 2 and Gubernatorial Candidate State of California, 2006.

Q.1 What are your responsibilities in this Rate Case Proceedings?

A.1 I am responsible for DRA's analyses and evaluation of Cal Am's (Los Angeles District) Administrative & General Expenses except rent and regulatory commission expenses (A&G Chapter 4); Operation & Maintenance Expenses (O&M Chapter 3); and Payroll taxes (Chapter 5).

Q.2 Does this conclude your prepared direct testimony?

A.2 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE I. STEINGASS, P.E.

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce I. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. From 2003 through June 2005, I was a Senior Associate for Barrington-Wellesley Group, Inc. a general management consulting firm serving electric, gas, water, and telecommunications industries, where I was engaged by public utility commissions to perform regulatory investigations related to operations or tariff requirements. From 1999 through 2002, I was employed by Navigant Consulting Inc., as a senior engagement manager, I provided management consulting in process improvement or regulatory support for utility clients. Prior to 1999, I was employed for seventeen years by Pacific Gas and Electric Company where my most recent position was the director of the Operational Compliance department.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:

Chapter 7 – Plant in Service;
Chapter 8 – Depreciation Expenses and Reserve;
Chapter 9 – Rate Base and Net to Gross Multiplier;
Chapter 11 – Rate Design;

I am responsible for the ad valorem tax in Chapter 5 – Taxes other Than Income; and one of the Special Requests in Chapter 12 including: Special Request #1 – Implementation of an Infrastructure System Replacement Surcharge.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission since 2003. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 4 – Allocated General Office expenses, Chapter 6 – Income Taxes, Chapter 10 - Customer Service and portions of Chapter 12 – Special Requests 4 and 7.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.